the Freeman

Ideas on Liberty

FEBRUARY 1984

The Secret of Swiss Prosperity

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Irvington-on-Hudson, N.Y. 10533 **Tel: (914) 591-7230**

Managing Editor: Paul L. Poirot
Production Editor: Beth A. Hoffman
Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

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On Minding One's Own Business

I HAVE SAID that we have an empirical political economy and social science to fit the distortions of our society. The test of empiricism in this matter is the attitude which one takes up toward *laissez faire*. It no doubt wounds the vanity of a philosopher who is just ready with a new solution of the universe to be told to mind his own business. So he goes on to tell us that if we think that we shall, by being let alone, attain to perfect happiness on earth, we are mistaken. The halfway men—the professorial socialists—join him. They solemnly shake their heads, and tell us that he is right—that letting us alone will never secure us perfect happiness. Under all this lies the familiar logical fallacy, never expressed, but really the point of the whole, that we *shall* get perfect happiness if we put ourselves in the hands of the world-reformer.

We never supposed that *laissez faire* would give us perfect happiness. We have left perfect happiness entirely out of our account. If the social doctors will mind their own business, we shall have no troubles but what belong to Nature. Those we will endure or combat as we can. What we desire is, that the friends of humanity should cease to add to them. Our disposition toward the ills which our fellow-man inflicts on us through malice or meddling is quite different from our disposition toward the ills which are inherent in the conditions of human life.

To mind one's own business is a purely negative and unproductive injunction, but, taking social matters as they are just now, it is a sociological principle of the first importance. There might be developed a grand philosophy on the basis of minding one's own business.

—*William Graham Sumner*

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
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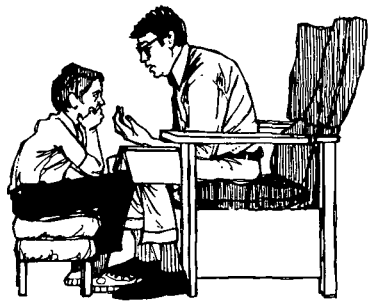
Dennis L. Peterson

BIG LESSONS FOR A LITTLE BOY



LABOR DISPUTES are occurring somewhere in the nation almost constantly. One can read or hear about some type of dispute somewhere on almost any given day. If railworkers or garbage collectors are not on strike, hospital workers or teachers are. Some group is always striking, walking out, sitting down, or threatening to do one or more of these things.

Much of this conflict could be eliminated by following principles of good labor-management relations. Whether one is an employee or an employer is insignificant, for the principles remain the same for both.

My father, a self-employed brick mason, realized the importance of such principles and tried to teach them to me. From the time I was big enough to cause trouble for my mother at home until I left for college, he insisted that I go to work with him. It was on the job that he began teaching me the common-sense principles of labor and management.

While other kids were playing on Saturdays and during summer vacations, I was mixing mortar, carrying bricks, rodding joints, and building or removing scaffolding for my father. I certainly did not enjoy the work at the time, but it taught me many valuable lessons. I frequently recall them and wonder where organized labor would be if we all followed those simple principles.

First, let us look at a few princi-

Mr. Peterson of East Greenville, Pennsylvania, is a free-lance writer interested in studying and explaining the benefits of the free market.

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ples dealing with the responsibilities of employees to their employers.

Use Time Wisely

Wasting time on the job is a common complaint made of many workers. When an employee uses the boss's time wisely, he helps not only the boss but also himself.

My father taught me to never be found sitting down on the job. If I completed an assigned task and was caught "loafing around," he quickly gave me another assignment. I remember cleaning out his cluttered toolbox countless times when there was "nothing to do."

When there is no incentive to work hard, such as in the case of hourly workers, there is often a tendency to do as little as possible and to waste time. Why should one go out of his way to find more work when he gets paid the same hourly wage for doing as little as possible?

For this reason, my father seldom paid his workers by the hour. Instead, he paid by piece-work: the more bricks or blocks we helped him lay, the more money we earned.

As a little boy, I remember working for twenty-five cents per hundred bricks. I could only carry three bricks at a time, but I kept an almost hourly account of the money I was making. I counted how many bricks I carried and compared that number with how many Dad was laying. It made me work harder and helped Dad complete his jobs faster.

Samuel Smiles wrote in *Thrift*, "It is the idler, above all others, who is undignified and dishonorable. No idle or thriftless man ever became great. It is among those who never lost a moment that we find the men who have moved and advanced the world."

Be Loyal and Obedient

Today's workers are transient creatures. Few of us stay at the same job for any great length of time. Whenever we hear of a worker retiring after twenty or thirty years with the same company, we are amazed. A constant shifting of jobs often results in a lack of loyalty.

Staying with the same job for many years creates in a worker a sense of pride in his job and in his employer. Athletes would call it team spirit. Soldiers would call it company morale. Without such loyalty, it is easier for disobedience and disrespect to occur.

My father has worked as a self-employed mason for over twenty-five years. Most of that time he has worked for the same contractors. He has been consistent in his pricing, attendance, and work quality. During that time, however, he has had many different employees. Although many of them were good workers who retired or young workers who advanced to better jobs, others were simply job-hoppers. They wanted good pay for little effort. They

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did not want to show up on time. They wanted to quit early. The workers who worked for Dad longest were also the most respectful, most obedient, and most diligent. Their years of work gained them not only a good income but also a good reputation.

John Ruskin once said, "The highest reward for man's toil is not what he gets for it but what he becomes by it."

Do Your Best

"An honest day's work for an honest day's pay" used to be an unwritten motto of American laborers. A return to this philosophy would do wonders for the U. S. economy.

But honesty in labor goes far beyond hard work in return for a wage. It encompasses quality, truth in advertising, and a desire to do one's best.

In recent years, the quality of foreign products has surpassed that of American manufactured goods. Whereas the stamp "Made in Japan" used to be synonymous with "shoddy," the opposite is true today. Consumers know this and are buying the high-quality foreign products. In response, American industry has attempted to restore confidence in the quality of its goods by advertising a return to quality.

Are American factories really improving in quality as a result of their advertised quality-consciousness? For the answer, at least in the automobile industry, study the "incidence of repair" charts in the automobile issue of the latest consumer magazine. The Japanese do not talk quality; they produce it. Americans, however, have developed a reputation for talking it but seldom producing it.

The root of America's lack of quality can be traced to the individual workers' attitudes and daily efforts. To try to get away with producing poor quality products while advertising quality is less than honest.

I vividly remember my father teaching me to rod joints. He emphasized the importance of getting them smooth and straight. He warned of rodding them before they had had a chance to dry and of letting them get too hard. Despite these admonitions, I would sometimes try to finish early, making an unsightly mess on the bricks, or I procrastinated, making dark, ugly marks in the joints. It took a while for me, childlike as I was, to realize that my ineptness and procrastination or hastiness could affect my father's reputation as a mason.

Many workers have the idea that they have fulfilled their obligation if their production is good enough to get by. "That's good enough for government work," I've heard some say, implying that government employees are frequently guilty of this attitude.

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Samuel Smiles pointed out the danger of this attitude when he wrote in *Thrift*, " 'It will do!' is a common phrase of those who neglect little things. 'It will do!' has blighted many a character, sunk many a ship, burned down many a house, and irretrievably ruined thousands of hopeful projects of human good. It always means stopping short of the right thing. It is a makeshift. It is a failure and defeat."

The old Newport-News Shipbuilding and Dry Dock Company, prior to being taken over by Tenneco, tried to combat the "It will do!" mentality. Their slogan was, "We shall build good ships here—at a profit if we can, at a loss if we must—but always good ships."

Be Patient

The present generation of American workers has grown up in an "instant" age. We have instant coffee, instant tea, instant potatoes, instant winners, and instant pain relief. We have become so accustomed to receiving everything "instantly" that we have great difficulty waiting for anything.

When workers today want a wage increase, improved working conditions, or an additional benefit, they are too impatient to make known their desires and then wait for the employer to study it and eventually "get around to it." Instead, they present "demands" and an ultimatum. They expect instant compliance or they will initiate a work slowdown or go on strike.

They fail to realize that perhaps the employer sees a problem in their demands that could be solved in time but which will only complicate matters if the demands are granted immediately. They fail to recognize what their belligerence is doing to their reputations as employees or the harm they are doing to young people soon to enter the labor market. They are actually developing a subconscious association with their employer as an adversary rather than as the co-laborer he is.

What if an employee has a legitimate complaint against the employer? The employee should diplomatically let his views be known, suggest changes that need to be initiated, and then patiently wait for results.

What if the employer continues the undesirable action or refuses to make the suggested changes? The employee then has several choices. He can "grin and bear it," ignoring the problem and continuing as though there is no difficulty. He can once more approach the employer, repeat his opinions and suggestions in a more convincing but still civilized manner, and give more time for the changes to be incorporated. Or he can exercise the most valuable right of any free worker: he can resign and search for a position where the con-

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ditions, wages, benefits, and the like, are more in keeping with his needs and desires.

Most people are generally reasonable creatures, even bosses—if approached in the right manner and with the right attitude. Any who are not reasonable in the face of such an approach will soon realize their error when workers begin to go elsewhere for employment.

The workers, however, must be patient with their bosses, good ones and bad ones alike. Employers also have responsibilities to their workers. The principles that make for a successful labor-management situation are built on a two-way street:

Deal Justly

Justice is a very broad subject when it comes to labor. It involves not only the proper payment for work done but also the general manner in which one treats employees.

The phrase "an honest day's work for an honest day's pay" applies to employers as well as to employees. If one expects to obtain quality work he must be willing to reward the laborer.

It should go without saying that the wage one receives should be the wage agreed upon before the work began. But how often do disputes arise over the agreed-upon price *after* the job has been completed?

What should employers do when workers present complaints over wages, hours, benefits, or conditions? Deal justly. Listen to the complaints, try to understand the workers' viewpoints, and, if possible, do something to alleviate or reconcile the problem. He, as well as the workers, is to be patient.

Pay Promptly

An employer has an obligation not only to pay his workers *properly* but also to pay them *promptly*. The agreed-upon payday might be daily, weekly, biweekly, monthly, upon completion of the job, or a variety of other times. Regardless of the method agreed upon, pay must be given promptly at the designated time.

I remember several times when my father would wait several months for a paycheck to come in payment for a job completed. He would have to call, pester, and almost beg to get payment from the contractor. The contractor, who had received what he wanted, seemed in no hurry to fulfill his end of the bargain. To say the least, he was not one of Dad's favorite accounts.

Don't Threaten

Some employers are very hasty to tell employees what will happen if things are not done "according to Hoyle." The sole incentive for workers becomes keeping their jobs or avoiding penalties. The whip is constantly being cracked just above the workers' backs. The boss yells and

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demands and threatens and snarls.

Under such circumstances, the newly-hired, timid, or dull workers will "knuckle under" to these threats. The others, however, will begin to develop a negative attitude not only toward their boss but also toward their work itself. They will soon answer threat with threat and snarl with snarl. The quality of their work will suffer. Their demands will increase. Job dissatisfaction will spread like a cancer.

One employer and his supervisors tried to "encourage" loyalty and quality by threatening. Workers were repeatedly fed a diet of threats, criticism, and negativism. It seemed, to listen only to the boss, that no worker could do the job right. Whenever someone offered constructive criticism or suggested a different approach to improving job quality, they were told, "If you can't take the heat, get out of the kitchen." The result: mass resignation. The workers got out of the kitchen. And what of job quality and loyalty? It was worse than ever.

There is a place for threats and negative action in labor relations. In fact, some workers deserve more of it. But generally a more reasonable and positive approach will work better.

These principles of labor and management are very simple yet so infrequently applied. If incorporated on a regular basis by workers and bosses alike, the labor movement would practically cease to exist. There would be very little need for it.

Everyone would benefit from the application of these principles. The results, however, are not in question. The question is whether or not we as Americans are really willing to apply them.

IDEAS ON LIBERTY

Self-help

"HEAVEN helps those who help themselves" is a well-tried maxim, embodying in a small compass the results of vast human experience. The spirit of self-help is the root of all genuine growth in the individual; and, exhibited in the lives of many, it constitutes the true source of national vigor and strength. Help from without is often enfeebling in its effects, but help from within invariably invigorates. Whatever is done *for* men or classes, to a certain extent takes away the stimulus and necessity of doing for themselves; and where men are subjected to over-guidance and over-government, the inevitable tendency is to render them comparatively helpless.

SAMUEL SMILES

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Dean Russell

The Secret of Swiss Prosperity

HERE'S an approach to securing student participation in class discussions. At the beginning of the very first class (even before the housekeeping chores), I ask a seemingly simple question. "What makes Switzerland prosperous?"

Over the years, I've asked that question of hundreds (perhaps thousands) of students in my "international" courses. After first temporarily ruling out participation by "prior" students, I've never yet gotten an immediate response. Just silence. So after waiting a few moments, I continue.

"It *is* prosperous, you know—one of the most prosperous nations in the world. And before we can realistically approach these international business problems we're studying here in class, we've got to understand why Switzerland is prosperous and why so many other nations aren't prosperous. If we can't figure that out in advance, we have no reliable guidelines to direct our business decisions abroad."

Still nothing. But I can almost see some of those sharp minds beginning to come awake. And the "prior" students who remember what comes next, usually are grinning broadly and enjoying the whole charade. Then I make the students an offer they can't refuse. "The first one of you who comes up with an answer—*any* answer—on the secret of Swiss prosperity gets an A for the next test, and you needn't even take the test."

Usually (but not always) that produces a response. At any rate, everybody's now awake, and the an-

Dr. Russell is Professor of Management, School of Business Administration, University of Wisconsin at La Crosse.

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swers then begin to come. I *always* keep my promise to the first one—an automatic A for a major test. And if there's an argument concerning who was first (it sometimes happens), I award an A to both. For I learned early in my teaching career that an A and F both require exactly the same amount of time to print, and they use up precisely the same amount of ink from my pen. Since that's true, why not go first class whenever possible!

I've never yet gotten an early response that even comes close to what I'm convinced is the basic cause of Swiss prosperity. But at any rate, the discussion is off and running, and it continues (off and on) throughout the semester with a series of nine or ten mini-discussions on the subject.*

Almost all of us agree quite quickly that we'd rather invest in a prosperous nation than in a non-prosperous one. Sometimes a particularly sharp student will say, "No, the best procedure is to invest in a nation that's not yet prosperous but shows every sign of becoming so." To him (it's frequently a "her," of course), I award another A and say, "Agreed, but what criteria are you going to use to decide which countries are most likely to become prosperous?"

It's still the same question. And intelligent businessmen want to understand the basic issue behind it before they expand abroad in any capacity. Otherwise they'll never maximize their long-range profits, and they may even lose their entire investment.

Size?

The first obstacle the students (and, I'm convinced, most businessmen) have to overcome is the ingrained conviction that prosperity is somehow determined by size. That's one of the reasons I use Switzerland as an example. Why we even have *counties* in Texas that are about the size of Switzerland! And Russia and Brazil and China (fairly large nations) aren't exactly noted for prosperity.

Finally, the students are willing to admit (albeit reluctantly) that size is no guarantee of prosperity. And obviously, small nations can be prosperous. I don't dare tell them that if a correlation exists between size and prosperity, it's more likely to be negative than positive, e. g., subsistence-level Japan with its empire, and prosperous Japan without it. The possibility of that correlation would be just too much to ask them to consider. But I can quickly think of several small nations that lost their empires after World War II, with a

* If you the reader would like to participate in this serious game, then at this point please give your own appraisal of the *basic* cause of Swiss prosperity. I can't guarantee that *my* answer is correct, but I'm confident that your answer and mine will vary in several particulars. So place your bets and come on along.

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resulting increase in prosperity. For example, tiny Holland without its vast empire is now more prosperous than ever.

Resources and People?

After size, resources seems to be the most popular answer as the cause of prosperity; for everybody knows that nations with vast amounts of natural resources are automatically richer and more prosperous than resource-poor nations. That's why those European nations went into the "empire business" in the first place, i.e., to get all those natural resources.

I've never yet found a student who immediately said, "The resource-argument is false, totally false." But it is. Just look around.

With the temporary exception of a few (not most) of the oil-rich nations, you can't find anything that even looks like a positive correlation between prosperity and resources. While resources may (or may not) be available in prosperous nations, that's not what caused it. Then I take them back to resource-poor Switzerland—which by now, some of the students wish didn't exist. It seems to disprove most everything they've always believed about the cause of prosperity.

About the only natural resource Switzerland has is snow for skiers—and then it melts into running water that can be used to generate a little electricity, but is really used mostly to fill those lovely lakes you can sail boats on and fish in. No, natural resources *in Switzerland* are not in any way related to Swiss prosperity.

And while we're looking at that conventional resource-argument, don't forget the enormous natural resources in Zaire in Africa. And remember the subsistence-level of living of those one million or so Indians who inhabited our own vast and resource-laden land when Columbus arrived on the scene. Actually, when I look at Venezuela, Colombia, and similar poverty-ridden countries, I'm almost tempted to conclude there's an *inverse* relationship between resources and prosperity, i.e., the more they've got, the less prosperous they seem to be. At any rate, there's no correlation between prosperity and the natural resources that exist within a nation.

Then how about people? It's obvious that if you don't have people, you can't have prosperity. Well, if "people" is the answer, we can know for sure that China and India are the most prosperous nations in the world; for along with a lot of resources, they've also got a lot of people. The entire country of Switzerland doesn't have even as many people as Chicago.

No, there's no relationship between the size of the population (be it large, small, or in between) and

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prosperity. None whatever. China, with its enormous population, *could* quickly become as prosperous as Switzerland (probably more so) if its leaders only knew what causes prosperity. But since they don't, it won't.

Education and Effort?

Well, perhaps it's due to education, e.g., the high literacy rate in Switzerland. But that answer begs the question. How did Switzerland become prosperous enough to be able to take all those people out of the work force and put them in school for so many years? Education (as contrasted with mass training) is the *result* of prosperity, not its cause. The British laws against child labor didn't take those kids out of the factories and put them in schools. *Prosperity* did it. And that's why it's so vital to our future (individually and as a nation) that we understand what causes prosperity.

Don't forget that Russia is forever bragging that the literacy rate there is higher (much higher) than in the United States. Perhaps so, but that only proves that literacy is not the cause of prosperity. Admittedly, it could be that the Russians have deliberately decided to continue an existence-level standard of living in order to devote resources to more education. Probably not. But even if it's so, their inability to understand what really causes prosperity will only mean they'll continue to be the most literate people the world has ever known with such an unbelievably low level of material existence.

But back to the Swiss. Perhaps they just work harder than other people. Maybe that explains their high standard of living. No, they don't work harder, not really. True, one of their national heroes, John Calvin, told them that's what God wanted them to do. And while I lived there for two years, I observed that they do work hard. But they don't work any harder or longer than, for example, the Indians I observed cutting cane in Guatemala. Anyway, the more prosperous the Swiss become, the less they work. That's to be expected. In fact, that's why most of us work in the first place. We want to become prosperous so we can work less and enjoy more. No, hard work doesn't necessarily bring prosperity; there just isn't any positive correlation, individually or collectively.

Agriculture?

Well, perhaps it's because the Swiss have big farms with rich soil to grow those delicious vegetables and to provide pastures for cows to be milked to make that famous cheese. Everybody knows that prosperity is based on agriculture. I hear it everywhere, especially in the farming areas here in Wisconsin where I teach. And it's simply not so. That's an old fallacy that came to prominence again when the farm-

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ing areas of East Germany were separated from West Germany. With the loss of their farmlands, surely the West Germans would starve, and the East Germans would grow fat. The reverse happened. The agricultural capacity of a nation is not necessarily related to its prosperity.

As my old professor in Geneva, Wilhelm Röpke, said, "It's simply astounding that almost nobody seems to understand why it worked out the way it did in Germany. The East German leaders are totally baffled when they must go again to the West German leaders and beg for some more food. They simply have no comprehension at all concerning the cause of the abundant supply of food in West Germany."

Anyway, there are no big farms in Switzerland. And the few they've got are poor and mostly located on the sides of steep mountains. People have actually fallen out of them and been killed. Literally. So stay out of those Swiss farms, especially the vineyards; they're dangerous.

Form of Government?

Eventually, some student is sure to suggest that Switzerland's prosperity is due to its democratic form of government. Close, but no A for the semester—not yet, at any rate. We've first got to understand how the Swiss form of government is *totally* different from any other form of government in the world today; *then* perhaps we can see the relationship of government to the basic cause of prosperity.

The essential difference between Swiss democracy and the other democracies around the world is well-illustrated by this true story. I asked a Swiss fellow-student, "Who's the president of Switzerland?" He thought awhile and then said, "I don't know. It doesn't make any difference anyway. So we just don't pay much attention. I think," he concluded, "they sort of take turns."

Then I discovered a startling fact. The Swiss constitution for its national government is somewhat like the Articles of Confederation of the original 13 American states—except that the Swiss national government doesn't have nearly as much power as did our old Continental Congress.

The tiny nation of Switzerland is composed of 25 "federated states"—and in many respects, each state operates much like an independent country. Talk about states' rights! The states operate as a unit for the armed forces, communications, foreign relations, tunnels and bridges, and other "common problems." Otherwise they protect their languages and ethnic cantons with a fierceness you wouldn't believe. You are free to move from one canton to another if you wish to do so. And you can conduct unrestricted business in all of them. But don't you dare mess

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around with the different cultures, languages, religions, and ethnic groupings. They're convinced (rightly, I suspect) that if Switzerland ever becomes an integrated nation with a common language, they would soon lose their prosperity and disappear into a neighboring country.

Thus it's true that the Swiss form of government does indeed have something to do with their prosperity. But that's still not the basic reason for their high level of living. Anyway, that restricted (almost nonexistent) Swiss form of national government is not what my students have in mind when they say "democratic." In fact, they're thinking that prosperity comes from a *strong* central government—that permits lots of voting, of course.

Right to Vote?

For some unfortunate reason, "democratic" seems to be equated totally with voting in the United States. That's too bad, really; for it pulls us over into the age-old concept that "might (the majority) makes right." At the end of that seductive road is death itself. And you're still dead forever, even if it's the will of the majority.

So while sometimes there seems to be a relationship between right-to-vote and high-level-of-living, it's too tenuous to depend on. They vote in India, for example—in truly free elections in every sense of the word, just as in the United States. In fact, I once discussed democracy with the prime minister of India who succeeded Indira Gandhi because his party got more votes than her party. That prime minister truly believed in democracy, and would willingly die for it if necessary.

India also has people, resources, and one of the largest educational systems in the world. But they haven't the vaguest idea what causes prosperity. Until they find out, they're doomed to their low (and decreasing) level of living. Making their educational system even more universal, as they are continuing to do, is more likely to decrease prosperity than to increase it. In any case, there's no positive correlation. If you recommend that your company build its factories in India, you surely must be mad at your bosses and are trying to get even.

There's voting in Chile, Peru, Argentina, Mexico, and in almost all the new African nations. It's a real popular pastime. Hitler made good use of it. Stalin enjoyed voting, and he insisted that everyone else should vote, too. In at least one country in the democratic Western World, they'll fine you (democratically, of course) if you don't vote.

When I was in school in Switzerland in the late 1950s, women couldn't vote. We Americans chided our Swiss fellow-students about that.

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They (including the women students) simply couldn't understand why that seemed to perturb us. As they said, "The women's vote would not in any way change anything. It's not really an issue. But even so, we'll eventually get around to changing the law to give the vote to women—if for no other reason than to prevent any more pointless arguments with our friends." They changed the law. Women now vote. And Switzerland is still precisely what it was.

No, if you mean that the right to vote *in truly free elections* will lead any nation to prosperity, you're in for a shock. There's no fixed correlation between voting and prosperity. In truth, most of the world's people (including us here in the United States) are using our votes to endorse measures that will surely *decrease* prosperity. In England, the world's oldest democracy, the people voted to nationalize mines, railways, banks, and anything else their leaders called to their attention. That didn't exactly increase prosperity there.

Here's an all-important caveat, however—an explanation to prevent any possible misinterpretation. It's absolutely vital that we preserve the right to vote in the United States. While it doesn't cause or preserve prosperity, it definitely *does* preserve our right to change officials. Thus it's the mainspring of the most precious ideal of all—human freedom; for our own leaders will surely destroy us if we leave them in power long enough. The right to vote "western style" is a sort of insurance against total tyranny. And that's worth a high price, including even a decrease in our standard of material living if necessary. When all is said and done, it's even worth dying for.

Capital Formation?

Finally the students arrive at the answer they just know I've been waiting for. "Capital formation!" they shout, and wait for the expected shower of A's. I truly hate to disappoint them again, but I must. Capital is not the answer to prosperity, not really; capital formation is the automatic result of something else, which is the real cause of prosperity.

The Russians, for example, have more capital (machines and such) than you can find in Switzerland—measure it any way you like. And the Western World keeps sending vast amounts of additional capital to Russia, as we've been doing steadily since the early 1930s. And, of course, the Russians themselves produce vast numbers of machines of various kinds. The fact that their material level of living (prosperity) is actually decreasing is not really the fault of all those machines. It just doesn't seem to be related to it one way or the other. That enormous accumulation of capital throughout the country is of almost no value to the

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Russian people in raising their level of living. They're in much the same position the Japanese were in 1940. The Russians use that capital mostly to maintain their empire, while the people continue to stand in line for something to eat.

That's one of the sights that most impresses our students when they go to Russia under our "Russian Seminar" program—the long lines of people waiting patiently to get some food, or shoes, or any other desirable good.

Increasingly we are encountering the same sort of lines here in the United States. And they occur here for precisely the same reason they appear in Russia, i.e., governmental interferences in the market place. For example, the evening TV newscasts are forever featuring long lines of Americans who actually camp out overnight to get first shot at government-subsidized interest rates, government-created jobs, government disbursements of food, and so on. And as these governmental interferences increase "to help the people," the lines will grow longer—and the "stuff" up front will grow shorter.

Why Work and Save?

No, we'll never solve the secret of prosperity until we understand why people save their money and devote it to capital formation in the first place. That's the key to prosperity; not capital formation itself but what causes you and me to create it and to use it to produce whatever it is we choose to produce and for whatever reason we choose to do it.

No one "works and saves" because the country is large or has resources or votes or because of any of the other half-truthed fallacies we hear everywhere. You and I work and save (form capital) for one simple reason. We expect to gain *individually* by doing it, to have more later on by using less of what we produce today. And if that expectation is absent for any reason, we cease saving and just consume whatever we've got, a sort of hand-to-mouth existence.

Of course, there *is* one other reason people produce and "save"—and that is because brute force is applied against them by whatever type of government happens to be in power. But while compulsion does indeed produce capital formation, it's not exactly the best way to encourage creative thinking and effort. Anyway, it's seldom the type of capital that's designed to meet consumer demands.

Finally the students give up. They claim they've covered every possible cause of prosperity. "So what's the answer?" they ask. There's an excellent reason for their wanting to hear what I think is the cause of Swiss prosperity. They can then hand back the "correct" (i.e., the instructor's) answer on the test they're sure will be coming along shortly. That's

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known as "student realism," and they've developed it to a fine point over a period of four years or so.

But they never get such a test from me. No student is ever held responsible for my particular viewpoints and prejudices. My tests in "policy and opinion courses" consist of research and term papers, plus prepared tests supplied by the authors of the texts themselves. And even on the papers, I'm generally more interested in their grammar, spelling, and composition than anything else. (For good writing will prove valuable, no matter what careers they follow.) You see, when all is said and done, I don't know *the* answer any more than they do. The best I can do is to tell them what I think, and why I think it.

Actually, the students are already familiar with the secret. They're always a bit disappointed when it doesn't turn out to be mysterious and complicated—with a formula to memorize and a model to help them get the answer. The answer (as I see it) is so well known and obvious and simple that no student ever seems to bother to say it and to spell it out a bit.

The Cause of Prosperity

The cause of prosperity in Switzerland (or anywhere else) is the competitive free market economy. It always leads to prosperity. Always. All the other supporting causes necessarily flow from it and are caused by it.

For example, there can be no free market if the government restricts it with wage and price controls, tariffs against competition, subsidies to various groups, and so on. Thus a government with strictly limited powers is an automatic result of the free market economy.

In a free market economy, there's also private ownership of all resources and all means of production and distribution. True, it's possible to have a form of private ownership under a dictator—Hitler, for example. But it's impossible to have a *free market economy* under dictatorship. When a group of producers are controlled or enslaved (or even exterminated), only a madman could refer to it as an economy wherein all peaceful persons can produce whatever they wish to produce.

When the market economy exists, the government automatically assumes the position of "night watchman." The government then becomes merely an organization (a mechanism) we use to preserve the peace, to keep out robbers (both foreign and domestic), and to make sure there's no organized effort to disrupt the workings of a free people, freely trading with each other on mutually acceptable terms.

In a competitive market economy, there'll be all the prosperity there can be. Any restrictions imposed

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upon it, i.e., imposed against peaceful you and me, will automatically result in less prosperity than could be. If the nation happens to be large and to have an abundance of natural resources, fine—but they're not in any way necessary for prosperity.

For example, Switzerland is a poor nation when the customary "size and resource" criteria are used. But the Swiss actually have the largest possible market—the entire world with all its natural resources and skills. The exceedingly high standard of living enjoyed by the Swiss is based on trade—not so much *in* Switzerland as *through* Switzerland and all over the world. They invite you to send your capital to Switzerland. They'll keep it safe for you; they won't even tell anyone you sent it. And they'll supply you with the world's best managers of capital—for a reasonable fee, of course. They'll invest it for you throughout the world, including a large portion of it right back here in the United States.

That's the secret of Swiss prosperity—the free market economy, backed up by the resulting strictly-limited government, private ownership, tax and banking laws favorable to capital accumulation, good financial managers, and trade all over the world with anyone (under any form of government) who wants to trade. They learned long ago that prosperity can't really be created; it just seems to show up automatically when and where there's a favorable climate for it.

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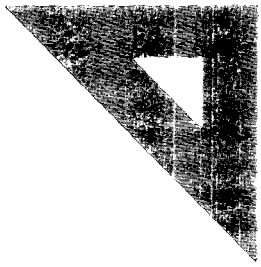
Clarence B. Carson



EVADING THE ISSUE

REASON has not fared well in this century. This is the more strange because never before have there been so many ways to convey thought and ideas so swiftly and extensively to other people. Before the 1840s, when the telegraph was invented, it was only possible to convey ideas either in person or on paper, written out by hand or printed and shipped at the same speed, more or less, as other cargo. Now, ideas and pictures can be communicated virtually instantaneously around the world via satellites. This development is, if not the culmination, one of the most recent in a dazzling array of inventions and discoveries for making words available or retrievable over distances with great rapidity: the telephone, recordings, radio, television, motion pictures with sound tracks, microfilm, and so on.

Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books, his most recent being *Organized Against Whom? The Labor Union in America.* He is working at present on A Basic History of the United States to be published by Western Goals, Inc.

Yet conveying carefully reasoned and sustained thought is very much an uphill job in this century. Indeed, it may well be much more difficult than in earlier centuries. It would be easy to jump to the conclusion that there is a causal connection between the proliferation of the means of communication and the resistance to the product of sustained thought. Undoubtedly, the great cacophony of sound and sights made swiftly available by these devices does make more active discrimination necessary if we are to distinguish between sound and sense in this century.

But there is good reason to believe that the low estate of sustained rational thought in this century has other explanations. Reason has been subjected to sustained direct and indirect assaults for more than a century now. It has been dismissed as rationalization, abandoned as ineffective, and ignored as if it were beside the point. Reason has been widely discredited, and it has been

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swept aside by the dominant irrational currents in many fields of thought.

Above all, though, reason has been made to appear irrelevant by focusing the intellectual attention elsewhere. Whole schools of thought have taught us to ask *why* people say, think, or believe as they do, rather than to ask *whether* what they say is valid or invalid, true or false. They have taught us to deal with secondary questions about ideas rather than the primary one, thus avoiding the basic question or evading the issues raised by trains of reasoning. The late C. S. Lewis devised an imaginary name for this turn of mind. He called it "Bulverism."

"Some day," Lewis wrote, "I am going to write the biography of its imaginary inventor, Ezekiel Bulver, whose destiny was determined at the age of five when he heard his mother say to his father—who had been maintaining that two sides of a triangle were together greater than the third—'Oh you say that because you are a man.' 'At that moment,' E. Bulver assures us, 'there flashed across my opening mind the great truth that refutation is no necessary part of argument. Assume that your opponent is wrong, and then explain his error, and the world will be at your feet. Attempt to prove that he is wrong or (worse still) try to find out whether he is wrong or right, and the . . . dynamism of our age will thrust you to the wall.' That is how Bulver became one of the makers of the Twentieth Century."

Unfortunately, Lewis never got around to writing this illuminating biography. Indeed, his description of "Bulverism" is fragmentary (in the version printed in the collection of essays, *God in the Dock,* published by Arlington House, pp. 271–77). His main concern was with Christian apologetics; in that endeavor he employed reason rigorously, albeit with much wit and charm, and he insisted over and over again that the basic issue that precedes all others was whether or not the Christian view is correct and true. Those who raised subsidiary issues first were, in his view, evading the issue. He saw clearly that "Bulverism" was an obstacle to his efforts, as well as those of anyone using reason to arrive at such truth as they could hope to arrive at and convey to others.

Examples of "Bulverism"

The two actual examples which Lewis gives of "Bulverism" at work are from Freudianism and Marxism. More broadly, what he had in mind was the habit of psychologizing and appealing to economic determinism as a means of explaining (away) statements or beliefs. "The Freudians have recently discovered that we exist as bundles of complexes," Lewis said. "The Marxians have discov-

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ered that we exist as members of some economic class." Thus, he says, if the claim is made that Elizabeth I was a great queen, the Freudian says that if the claimants are analyzed it will be discovered that they believe this "because they all have a mother-complex. Their thoughts are psychologically tainted at the source." The Marxist, on the other hand, says that if people think that economic freedom is a good thing it is "because they are all members of the bourgeoisie whose prosperity is increased by a policy of *laissez-faire*. Their thoughts are 'ideologically tainted' at the source."

These approaches are profoundly subversive of reasoned and sustained thought. They are evasions of the issues. They assume what has not yet been tested, i.e., whether Elizabeth I was indeed a great queen or whether economic freedom is a good thing. To answer the question about Elizabeth, it would be necessary to weigh the evidence pro and con and arrange it in some fashion to arrive at a conclusion. To decide whether economic freedom is (or is not) a good thing it is necessary to engage in a lengthy process of reasoning, supported at the appropriate places with such evidence as can be assembled.

It may well be that propositions could have been chosen to which reason could be more aptly applied to arrive at satisfactory conclusions. But that is irrelevant. The point is that the basic question about a proposition is its truth or falsity, that *why* it is believed becomes of interest mainly when it has been shown to be false, and that the only way for us to ascertain the truth of a proposition is by reason.

The question now becomes: Is our thought tainted at the source? The answer, I think, depends both upon the source of thought in general and the source of any particular line of reasoning. So far as I can make out, the source of thought in general is the premises upon which it rests. The source of any particular line of reasoning is the particular premise from which it proceeds. If the premise is sound, and the rules of reason have been carefully observed, the conclusion reached should be valid.

What I am saying is this. If we trace any line of reasoning back to its source, what we discover is a premise. If the premise is invalid, then the source of our thought is indeed tainted, and our conclusions will also be invalid. To know where we stand, it is highly important to test our premise. To do that, we must, of course, advert to the premise(s) on which it rests, back finally to the First Cause, Original Source, or God, as philosophers have pointed out from time immemorial. But I point out the last here mainly to make clear that I do not have in mind some sort of infinite regression.

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Naturalistic Premises of Marxists and Freudians

The basic premises of the Marxists and Freudians are naturalistic in character. The broad frame within which their conceptions took hold is known as naturalism. (If it be objected that I am here explaining *why* they believed as they did, it should be pointed out that it is necessary to do this to get to their premises.) Although naturalism had many facets, the one that concerns us here is its application to ideas. Naturalists tended to view ideas as natural events in the same stream of causation as other natural events.

Karl Marx was (as any Marxist is) a materialist. That is, he believed that ideas and beliefs have a material cause, more specifically, that they are a reflex—an ideology—of economic interests determined by what class controls the instruments of production. In any case, they are materialistic in origin and are in a natural, i.e., material, in this case, stream of causation.

Sigmund Freud's thought was not so simplistically naturalistic as was that of Marx. Nonetheless, his explanations are basically naturalistic, though they are rooted in mental phenomena more than in the exterior world. Naturalistic ideas had already made considerable impact before Freud made his psychoanalytic innovations. Mechanistic (or materialistic) psychology comes out most clearly in behaviorism and its emphasis upon external stimulus and internal response.

Freud was not a behaviorist, but he did treat the mind and its contents as if they were in a natural stream of causation. The contents came from past experience and were stored largely in the unconscious (subconscious, non-rational, or irrational) mind. Our conscious ideas are apparently altered and driven or directed from the seat of the unconscious. True, Freud's psychoanalysis purports to deal with pathological states, but that has not in the least deterred Freudians generally from treating ideas as if they were all tainted by their subsconscious origins, i.e., have a non- or irrational base.

Neither Marxians nor Freudians recognize reason as it has been understood for the better part of 2,500 years in Western philosophy or describe the rules for its normal operation. Clearly, ideas are not material objects, such as billiard balls, which follow a path determined by the angle from which they are struck with cue sticks. No one has ever seen, felt, tasted, smelled, or heard (in the literal sense) an idea. Ideas are immaterial or, since that word has two distinct connotations, non-material; they can, therefore, only be affected by material in whatever ways that which is immaterial can be. That the material ordinarily has a determi-

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native effect on the immaterial is most doubtful. In any case, it is highly doubtful that thought or reasoning is in the chain of natural causation.

Thought is not a natural event, as we usually construe that phrase. It is *sui generis,* unique, belonging to its own category, distinct from all others. If reason is any kind of event at all, it is a *human* event. The ability to do sustained reasoning is a distinctly human ability. As for its place in causation, sustained reasoning, or the results of it, joins the chain of causation as a cause, not an effect. When thought is performing its proper office it is determinative, not determined. That this is the nature and role of reason is not some new insight of mine; it is the common sense of those throughout the ages who have given thought to the matter.

Some qualifications are in order, of course. Undoubtedly, all sorts of things may influence, disrupt, distort, or even condition our thinking. Intense heat or cold may make any but the most elementary thinking extremely difficult. Low pressure systems in the atmosphere may depress us, and high pressure systems may exhilarate us. Our wishes, whether born of material interests or immaterial desires for diversion, may lead us to wrong conclusions. Pathological mental states may render us incapable of sound reasoning. Our minds do not exist in splendid isolation from our bodies but are rather so much connected with them that we can rarely ignore them for long. If I were bitten by a rattlesnake, I suspect I would have great difficulty even breathing, much less thinking.

But all that should be nothing to the point. It is the very office of reason to put at naught all these influences which distort conclusions. If I draw my conclusion as to what is of ultimate importance in this world in the presence of a Bengal tiger on the loose, I may be expected to modify it in more serene surroundings, to say nothing of how others might view my conclusion. In like manner, it is the business of reason to remove all discrepancies in thought, whatever their source. The source of the discrepancy does not matter any more than the fact that Ezekiel Bulver's father was a man mattered in his conclusions about a triangle. The question is whether or not it is possible to construct a triangle any two of whose sides must not be longer combined than the other. If it is not, it matters not at all whether the person who drew the conclusion was a man or woman, a bourgeois or industrial worker, had an inferiority complex or had sublimated his sexual desires. Anyone who doubts this axiom about triangles can test it for himself. All else is irrelevant. It evades the issue.

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John K. Williams

EQUALITY, JUSTICE, & LIBERTY

In Australia recently I received through the mail a document entitled *Changing Australia*. The title was deliberately ambiguous: it was both descriptive—that is, referred to alleged changes taking place in Australian society—and *prescriptive*—that is, urged readers to agitate for and work toward, certain changes.

The document made sorry reading, being little more than a litany of most of the least lovely lunacies of our age. "High technology" was condemned; massively increased government-to-government aid to the third world was recommended; zero-economic growth was espoused; businesses and industrial enterprises making profits were castigated; higher taxation rates, and more lavish transfers of wealth from rich to poor, were advocated.

None of these attitudes or proposals could be described as "novel." Were it not for the *source* of the document few lovers of liberty would, I think, have spared it a passing glance. For that source was not the newly elected socialist government we Australians are "enjoying"—indeed, that government was severely reprimanded by the authors of the report for their "moderation." Nor was the source one of the many communist parties in Australia claiming to represent "authentic" Marxism-Leninism. Its source was the Divisions of Social Justice of the Roman Catholic, Episcopal, Methodist, Presbyterian, and Congregational Churches (the last three, which united in 1976, now known as the Uniting Church in Australia). In the coming months the faithful of these

The Reverend Doctor John K. Williams has been a teacher and currently does free-lance writing and lecturing from his base in North Melbourne, Victoria, Australia.

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denominations will, alas, be instructed, Sunday after Sunday, in the bizarre tenets informing *Changing Australia*.

Examining the Concepts

It is not my purpose fully to explore the eerie but world-wide infatuation of many mainstream churchpeople for the left, although that phenomenon is a fascinating exercise in pathology. I wish merely to isolate and comment upon three words littering the report, three words virtually captured, in recent years, by the left. I refer to the words "equality," "justice," and "liberty." According to *Changing Australia* my nation is characterized by sinful inequalities, outrageous neglect of "social justice," and a desperate need for liberation of the poor, the disadvantaged, the marginalized.

I speak of these three words—"equality," "justice," and "liberty"—as being "captured" because they once graced the lexicons of those committed to economic and political freedom. Adam Smith, for example, spoke of his "liberal plan of equality, liberty, and justice," contrasting his vision with the inequality, constraints, and injustice cursing the politico-economic system of mercantilism which obtained in the world he knew. Yet today most volumes of political philosophy discussing these key concepts use them to justify political and economic structures not far removed from those Smith, and later classical liberals, condemned.

What did the classical liberals mean when they used these words? Are we to reconcile ourselves to the left-wing captivity of "equality," "justice" and "liberty"? Or can we retrieve the words, exorcising them of their acquired connotations?

I believe we both can and must retrieve these words, for I know of no other terms we can use to capture the essence of the freedom philosophy. More: I am convinced that the left's interpretation of these terms is literally incoherent, whereas that of the classical liberals is superbly and powerfully rational.

The Concept of Equality

I begin with the term "equality." In its simplest sense, the word refers to a *relation:* in terms of some quality or characteristic two entities are "equal" if they share that quality or characteristic to the same degree. Two pieces of wood may be *equal in length;* two containers may be *equal in volume;* two material objects may be *equal in mass*. In terms of the quality specified, the "equal" objects are interchangeable.

Clearly, two objects cannot be equal in *all* respects. Suppose you are presented with two independently prepared descriptions of what you initially believe are distinct objects. You notice, however, that the two descriptions agree in all re-

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spects, including specifications as to location in time and in space. You immediately realize that you have been presented with two descriptions of one and the same object. Bluntly, if A and B are distinct, then each enjoys some qualities or characteristics the other lacks.

Granted that no two entities can be equal in *all* respects, what does it mean to say—as the document *Changing Australia* does *ad nauseam*—that all people are "equal"? What quality or characteristic—physical, intellectual, or moral—do all human beings share to the same degree? Whatever quality or characteristic is specified, exceptions are obvious. People simply are *not* equal—and that is singularly fortunate, in that they are therefore not interchangeable. It is odd that churchpeople should seemingly resent this state of affairs, for scripture, in asserting that God "calleth His sheep by name," celebrates the uniqueness of each, not the identity of all.

Are we then to agree with those who say that the claim "all people are equal," although it *looks* like a description, is really a prescription, a disguised way of saying that the moral person treats all people equally? Such moral advice is, however, somewhat wholesale: the Mafia hit-man who disposes of all his victims with equal efficiency is treating those victims "equally"; so is the sadist who treats all people with equal cruelty.

"Ah," say some moral philosophers, "you have misunderstood the principle. Really it means 'treat all people with equal consideration, equal compassion, equal respect'." Yet even that reformulation collapses: it is, after all, perfectly satisfied if one treats people with equally *little* consideration, equally *little* compassion, equally *little* respect.

Equality of Opportunity

At this point in the discussion most devotees of "equality" belonging to the left start speaking about "equality of opportunity." There is, as I shall indicate in a moment, a sense in which I warm to this expression. It should, however, be noted that most men and women of the left assert, when they observe some *inequality of outcome* to an exercise, that this *must* be due to some inequality of opportunity demanding coercive intervention—an utterly unwarranted conclusion unless one assumes *either* that participants in an activity enjoy an initial equality *vis à vis* such characteristics as physical prowess, moral fortitude, intelligence, *et al., or* holds that *equality of opportunity* justifies a coercive leveling down or handicapping procedure. The former assumption is false. The second inexorably leads, as Professor A. G. N. Flew has pointed out, to the grotesque world depicted by

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L. P. Hartley in his novel *Facial Justice,* a world within which handsome men and beautiful women are forced to undergo surgery to correct their envy-provoking excesses of sexual appeal, or the equally horrendous world described by Kurt Vonnegut in his short story "Harrison Bergeron," a world within which men and women above the average are cut down to mediocre size by the implantation of anti-pacesetters.

The key to the sort of equality favored by the left is simply this: the state of affairs they desire can be worked toward either by a "leveling up" *or* a "leveling down." Almost invariably the latter procedure is that which is adopted. For example, many private schools in my country which have tenaciously held to high academic standards and have provided the community with sensitive artists, talented surgeons, insightful writers, and gifted engineers, are under fire as being "elitists," and are, in effect, under pressure to relax their standards and sink to the mediocre level characterizing our schooling system as a whole. "Equality" demands it, you see!

Equality Before the Law

Adam Smith's understanding of "equality" did not lead to the adoption of such ludicrous policies. By "equality" he referred to *equality before the law.* There should be, he asserted, no classes, castes, or elites somehow "above" the law; no individuals or set of individuals who are the beneficiaries or victims of laws which applied only to them. It was this vision of equality which the Greek historian Thucydides celebrated when he praised his beloved Athens because in Athens "[when] it is a question of settling . . . disputes, everyone is equal before the law." A similar vision was embraced by Thomas Jefferson when, in his First Inaugural address, he advocated "equal and exact justice to all men, of whatsoever state or persuasion, religious or political." Such an understanding of "equality" may well preclude laws which, by "positive discrimination," seek to rectify past wrongs; only thus, however, is it possible in principle to preclude laws which perpetuate or initiate special privilege. The rules of the game must be the same for all; in that sense, and only that sense, the players—governed and governors alike—are "equal."

What About Justice?

But what about "justice"? If "unequals" are treated "equally," unequal outcomes are inevitable. The free market in the free society of necessity generates inequalities in income and wealth. It seems intuitively obvious that the most "just"—i.e., "fairest"—way to divide some good between people is to give each person an equal share of that good.

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Five people, for example, may find themselves marooned on a desert island graced by trees bearing coconuts: is it not "just" that each person should be given one-fifth of the coconuts? Since the free market in the free society, while certainly improving the lot of the poorest and putting an end to inequalities of wealth and income created by the existence of class and caste, does not distribute income or wealth "equally," "justice" demands a massive redistribution.

One can, in this context, make some pragmatic as against principled points. The attempt to redistribute wealth so that the difference between the highest and lowest incomes is minimized usually involves—certainly in a fettered market economy—progressive taxation and high marginal taxation levels. Unfortunately, however, such levels jeopardize capital formation, the *sine qua non* of economic growth and an improved standard of living. For a high marginal taxation rate hits saving in three ways: it taxes away the very dollar individuals have the highest propensity to save; it deters people from earning that dollar in the first place; and it taxes away the earnings from such investment. A *cut* in marginal taxation levels thus imparts a triple stimulus to savings and investment, but only a single stimulus to consumption.

Consider, for a moment, the third way high marginal taxation levels deter saving. Joe Doe, who earns a moderately high income, wins the lottery. After tax he has $100,000. Two incompatible desires torment poor but rich Joe: blow the lot on an outrageously extravagant car, or invest the money at 15% and add $15,000 *per annum* to his income stream. The "cost" of the car is considerable: the forgone $15,000 *per annum*. A 50% marginal tax level reduces that "cost" to $7,500 *per annum*. The pre-Thatcher 97% marginal tax rate which obtained in the United Kingdom reduced the "cost" of the car to $450 *per annum*. At *that* level a person who does *not* choose to purchase the car is operating, to put it gently, with a somewhat bewildering ranking of values. Bluntly, a high marginal taxation level encourages extravagant consumption, deters saving, and erects an almost insuperable barrier against capital formation. *And the ultimate victims are the poorest.*

Yet this pragmatic point is, to me, less important than a principled point. It is *not* clear to me that, when one ties the existence of some good to the production of that good, "justice" dictates any redistribution.

Almost invariably left-wing analyses of "justice" start off with an existing good to be shared between a number of people—five castaways on a desert island containing some coconuts or several folk adrift in a boat

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containing a given supply of food and water. Yet when one considers five castaways some of whom start thinking, planning, and toiling and thereby create some goods, or occupants of a life-boat who start fishing or distilling water or what have you, the picture changes dramatically. It is not, I suggest, self-evident that if A's alertness, thinking, and labor created some good, then B, C, D, and E can claim, in justice, equal shares of that good with A.

The Laws of Justice

In chapter 9 of Book IV of *An Inquiry into the Nature and Causes of the Wealth of Nations* Adam Smith, when describing his "simple system of natural liberty" *does* tie that system to "justice": "Every man," he writes, "*as long as he does not violate the laws of justice,* is left perfectly free to pursue his own interest his own way." And those eleven words—as long as he does not violate the laws of justice—are absolutely crucial. The productive achievements of the market *and* the freedom that it allows are both utterly dependent upon clearly defined and efficiently enforced property rights, or rules of the game.

Bluntly, the only conception of justice that makes sense in large, impersonal, pluralistic, societies which are *not* characterized by orchestrated behavior aimed at some single goal or set of goals involves the criterion referred to in our discussion of equality: rule by known general principles of conduct which apply without exception to all in an unknown number of future instances. The point might be made another way: the sole dictate of justice is "Avoid *in*justice," and injustice occurs when people are not treated in accordance with known rules that apply to all.

I used to lecture first-year undergraduates in philosophy. Some six hundred to seven hundred students usually enrolled for Philosophy I. Fairness demanded simply that all those students were subject to the same rules and that the rules were applied impartially. Should some individual student be disadvantaged by circumstances that these rules had not anticipated, the only "fair" way to deal with the situation was *either* to formulate some codicil, so to speak, to the rules which also was capable of general application *or* to decree that, however unfortunate, the circumstances in question did not constitute grounds for modifying the general rules. What *had* to be avoided was some rule which, in truth, applied to one unique case: the application of such a rule would, inevitably, lead to an arbitrary and capricious decision. *Justice,* in other words, demands the application of impersonal criteria to allocate burdens and benefits, for inescapable limitations on our knowledge make

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it impossible to take personal considerations into any account in any consistent way. And consistency is the *sine qua non* of fairness, hence of "justice."

In a sense I would like to conclude my discussion of "justice" at this point. Three additional points, however, should be made.

One. Although the consistent application of known general rules is a *necessary* condition for just behavior, it is not a *sufficient* condition. Something more than a purely formal principle is required; something must be said as to the *content* of these general rules. On this the classical liberals were clear: they linked generality of rules to the concept of *reciprocal respect for autonomy.*

The point is relatively simple. Human beings are characterized by the capacity to engage in goal-seeking, purposive behavior; they are, more simply, able to formulate and strive to realize their own visions of the "good life." For A, that vision might be reading the novels of Dostoevsky, listening to the music of Mozart, and solving cryptic crosswords; for B, it might be watching television, drinking cans of beer, and investing $20 per week on the track. According to the liberals, it was not for government to praise or blame, punish or reward, denigrate or recommend, *any* such vision, unless some such vision included the imperative *coercively to modify the behavior of others.* Should A, for example, kidnap B, chain her to a chair, place earphones on her head, and make her listen to Mozart, government rightly intervenes. Similarly, should B coercively extract $20 from A and invest it, for B's financial good of course, on a sure thing in the second race at Yonkers, government again rightly intervenes. *Government is ceded a monopoly of coercive power to be used solely to proscribe the arbitrary exercise of coercion by any individual or set of individuals.*

Thus: "justice" demands general rules of behavior, applicable to all in an unknown number of future instances, which proscribe the arbitrary initiation of coercion—crudely, which proscribe actual or threatened violence, theft, and fraud.

Two. The adverb "justly" and the adjective "just" are primarily used of purposive behavior. It makes little—or no—sense directly to use such terms of some pattern of distribution. (It *may* be possible to speak of a "just distribution" of wealth in a small tribe the members of which share a common vision of the "good life" and which is characterized by orchestrated behavior aimed at some specific goal or set of goals, but even that is not clear.) A category mistake is involved: it makes no more sense to debate whether a particular distribution of wealth is just or unjust than it makes sense to argue whether a refrigerator is musical or

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tone-deaf. The descriptions simply do not apply. If this is granted, the expression "social justice," so dearly beloved by clergymen of the left, must be dismissed as a meaningless combination of sounds.

A distribution of wealth may, however, be described as "just" or "unjust" in a secondary, derivative sense: a distribution is "just" *if and only if it is the outcome of just behavior. It is the process, not the final pattern, that ultimately carries the term.*

Here are two people: White and Black. White, a singer, earns $500,000 *per annum*. Black, a street magician, earns $5,000 *per annum*. Is this distribution "just"? The devotee of "distributive justice," or "social justice," noting the inequality obtaining, would probably answer "No!" The classical liberal would ask how that distribution was generated. Suppose White is popular with many thousands of people, who prefer to surrender $10 and alternative goods or services that money could buy and hear White sing than to retain that $10 or procure alternative goods and services and not hear him sing. White prefers to surrender several hours gazing at himself in a mirror, sing, and obtain a vast sum of money, than not to sing, enjoy gazing in the mirror, and surrender the money. The exchange is voluntary, all surrendering what is valued less, obtaining what is valued more, and thus improving their situation. The income is justly derived. Unfortunately, relatively few people choose to surrender money and watch Black perform. Again, that income, generated of voluntary exchange, is justly derived. It follows that the resulting distribution is, in the derivative sense noted,"just."

Three. It is vital that "justice" and "charity" are neither confused nor conflated. There is no conflict whatsoever in holding that one is morally obligated to assist needy individuals, according to one's capacity to assist, who come within one's sphere of action, yet to deny that such individuals have a *right* to one's assistance. This is, after all, central to the parable of the Good Samaritan. The priest, Levite, and Samaritan were all, according to Jesus, obligated to assist the robbed and wounded traveler. There is, however, no suggestion that the traveler was legally *entitled*—had a right—to that assistance. It was precisely because the Samaritan acted in a way going beyond what the law commanded that he was praised.

A crucial asymmetry obtains. A "right" of A generates an obligation for someone else. Contractual rights illustrate this: if A and B have signed a contract, person A has a "right" to B's services, and B has an obligation to provide A with those services. Similarly, those who assert that human beings have a "right" to a decent job are *ipso facto* asserting that

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someone somewhere is obligated to provide that job. The claim that the poor have a right to some of the possessions of the wealthy implies that the wealthy are legally obligated to surrender some of their possessions; indeed, that claim may well justify the further claim that those capable of producing goods over and above those needed for themselves are legally obligated so to do. Liberals, of course, insist that no such positive rights exist. *But* the assertion that A is obligated—morally obligated—to assist B does *not* entail the assertion that B has a "right" to A's assistance. In summary: rights for some entail obligations for others; obligations for some do not entail rights for others.

Many fail to appreciate this simple point. Indeed, contemporary clergymen must be strongly tempted to rewrite the parable of the Good Samaritan in terms of "rights" rather than an obligation to exercise the virtue of charity. The old-style Christian socialist postulates, in effect, a "Better Samaritan." Observing the wounded and robbed traveler, the Better Samaritan hot-foots it back to Jerusalem, calls out the Roman militia; extracts money from other wealthy Samaritans; and sets up an aid-to-wounded-travelers benefit. The "liberation theologian" goes further. He postulates a "Best Samaritan." This Best Samaritan observes the wounded and robbed traveler; concludes that since it had been worth the robbers' while to assault him he must have been fairly wealthy in the first place; decides that he must therefore be the beneficiary of an unjust economic and political order; and finally scurries off to take up a collection for the robbers (really, of course, "freedom-fighters").

The concepts of "equality" and "justice" advocated are perfectly acceptable to Christian believers. They parallel the "justice" of God who treats His children "equally" by sending rain on the good and bad alike. Similarly, the Bible writers invariably tie "justice" back to purposive behavior; Micah, for example, speaking of those who "act justly."

(In parentheses, it is worth noting the insistence of many contemporary theologians that believers should identify with the poorest and welcome laws which discriminate in their favor. Precisely what these theologians make of the insistence that "You shall do not injustice in judgment; you shall *not* be partial to the poor nor defer to the great" (Deuteronomy 19:15) is somewhat obscure.)

Liberty

One further term remains: "liberty." Confusion here is simplified if we simply note that the passive infinitive verbal form "to be free" or

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"to be at liberty" takes two prepositional constructions: "to be free *from*" and "to be free *to*." Following Sir Isaiah Berlin, these uses may be described as "negative liberty" and "positive liberty."

A person "free from" the constraints imposed by disease, poverty, or enslavement enjoys an autonomy a person subject to such constraints does not enjoy. A person "free to" express his views, choose his friends, and pursue the vocation of his choice similarly enjoys an autonomy a person lacking such freedoms is without. While Friedrich A. Hayek is indubitably correct to distinguish between legal constraints preventing a person doing X—say attempt to climb a mountain—and a lack of the ability or power to do X—say a lack of the skills or equipment needed to climb a mountain, *both states of affairs are characterized by a limitation upon individual autonomy (that is, an individual's ability to formulate his own goals and act in accordance with these).*

Minimally, government honors liberty, so understood, if it does not curtail behavior which does not interfere with the liberty of others. John Stuart Mill expressed this position in his *Political Economy, V* thus: "[the] individual is not accountable to society for his actions *in so far as these concern the interest of no person but himself.* Advice, instruction, persuasion, and avoidance by other people if thought necessary for them for their own good, are the only measures by which society can justifiably express its dislike or approbation of his conduct." Unfortunately the phrase "in so far as these concern the interest of no person but himself" proved remarkably slippery, as did the notion of "harm to others" utilized in *On Liberty.* The contemporary philosopher Robert Nozick has tightened Mill's statements by speaking of actions which do not involve actual or threatened violence, theft, or deception, but even this statement must face some difficult cases. Yet the general principle is clear: the only actions a government honoring liberty can proscribe are actions involving some form of coercive interference with others and, therefore, a denial of their autonomy.

Liberals—using the word in its contemporary, debased sense—however, go further. If individual autonomy is a good, should not government positively act to increase the total quantum of autonomous behavior within a community? If impoverished A lacks the means to pursue his own goals, should not some of affluent B's wealth be transferred from B to A, and A's autonomy thereby be increased?

Yet, such a position is impossible to defend. Such an action, justified by reference to human autonomy, itself constitutes an invasion of hu-

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man autonomy. A's autonomy may be increased, but B's autonomy is denied. For *given* a free market in a free society, B's wealth is the result of voluntary exchanges engaged in by B or the result of a gift from some third party, C. It may seem "unfair" that B rather than A is the beneficiary of C's generosity, but if C in any meaningful sense "owns" his wealth, justly acquired, he is at liberty to dispose of that wealth as he chooses.

In summary: the role of a government which respects liberty is to possess and exercise a monopoly of coercive power used simply to proscribe behavior which denies the autonomy of others.

The Christian who takes seriously the doctrine of the fall should respond positively to this analysis of "equality," "justice," and "liberty." Philosophers from Plato to Marx asked what political and economic structures maximize the good the best can do assuming they enjoy political and economic power. The classical liberals asked a different question: What political and economic structures *minimize the evil the worst can do* assuming they enjoy political and economic power? The assumption was not that the worst *would* enjoy such power, but that the possibility cannot be denied. This second question is the question men and women believing in the fall should applaud.

Conclusion

All forms of socialism—indeed, interventionism as such—assume that there exists a class, caste, or elite marked by a wisdom and a beneficence denied most mortals, and that this class, caste, or elite inevitably will exercise political and economic power. Werner Sombart, for example, postulated a hierarchy of führers headed by *the* Führer, who directly received his orders "from God, the Führer of the universe." Marx dreamed of absolute rule by a liberated intelligentsia and class-conscious workers, insisting that such rule would not be tyrannical. Even moderate interventionists hold that, when elected to political power, individuals will selflessly redistribute wealth in ways which benefit the most deserving. None take the doctrine of the fall seriously.

The words "equality," "justice" and "liberty" have been debased by those of the left, particularly within churches. Such people's use of these terms generates paradoxes which cannot be resolved, and demands an impossible playing off of one concept against another (say "liberty" as against "equality"). The classical liberals' use of the terms is, in contrast, coherent, rational, and perfectly in accord with Judaeo-Christian teachings and values. The terms belong to the lovers of freedom: the time has come for such people to reclaim them.

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Ernest G. Ross

Live Long and Prosper

THE AVERAGE LIFESPAN continues to increase in the United States. Once the deleterious effects of greater cigarette smoking among males are taken into account,[1] American men *and* women can reasonably hope to live well into their seventies. At the time of this nation's founding, the expectation was only about half that.

The trend which started long ago shows few signs of abating. "Life extension is not a new concept. Pioneers such as Semmelweis, who advocated that doctors wash their hands before examining pregnant women in labor (to control the deadly bacterial infection called puerperal fever); sanitation engineers; and other public-health officials around the turn of the century extended life substantially by preventing communicable diseases through antisepsis, immunizations, sewage control, and sanitary food and water processing."[2]

In most modern nations huge amounts of money (hundreds of billions of dollars in the U.S. alone) yearly go to various health-related programs designed to prevent, arrest, or reverse the various diseases and deteriorations which shorten human life. As an international underscoring of this effort, note that at $234.5 million the World Health Organization of the U.N. received the biggest single-agency share of the U.N.'s 1983 annual budget of $1.63 billion.[3]

In a sense, the entire field of medicinal research directly or indirectly promotes the extension of human life. But many other disciplines,

Mr. Ross is an Oregon commentator and writer especially concerned with new developments in human freedom.

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such as genetic engineering, computer-assisted diagnostics, biophysics and chemistry, radiation research, and nutrition—to mention just a few of the productive shafts of the life-extension gold mine—also contribute.

There is little doubt that science values the idea of enabling people to live longer. Certainly if we asked the average "man (or woman) in the street" if he thought greater life expectancy is a good thing, he would answer with a resounding, "Yes!"—as long as he could live in good health and decent economic circumstances. In other words, he would like to live long *and* prosper, physiologically and materially, which of course would enormously enhance his happiness.

Blessing or Burden?

Longer lifespan seems an obvious value. It is hard to imagine anyone considering it a negative. Yet, some do. Why? Because, they assert, it might be "too great a burden on society."

This fear about longer life being a burden *rather than a load-lightener* has a distinctively statist origin and appeal. Statism—because of its nature and despite its rhetoric of disguised benevolence—has a rationale for opposing longer lifespans under certain circumstances.

Statism builds and depends for *its* "life-extension" upon governmental programs which arbitrarily designate an end to the productive lives of citizens. Historically, in the more barbaric states, the elderly have simply been killed off. In "enlightened" modern statist nations older people are handed stipends. Because statist systems are resistant to change, the prospect of citizens living longer threatens "smooth" functioning and in some cases the very existence of entire bureaucracies.

As we all know, many nations have mandatory retirement ages and ages beyond which citizens are unconditionally entitled to government welfare. Vast, ponderous agencies such as the U.S. Social Security administration and various health care bureaus exist to distribute money taken from those who have not retired to those who have.

The bureaucrats who work in these agencies naturally have a vested interest. Their jobs depend on maintaining the status quo—as long as they can continue to sell government legislators on the idea. But the bureaucrats are primarily concerned with preventing the status quo from moving in one direction: toward the shrinking of their agencies' scope and power. If the status quo changes by expansion, that's quite a different matter.

This was the pattern in America for many years, although it accelerated from around 1945. "Since the end of World War II, the U.S. has moved toward functional socialism

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almost secretly," according to London School of Economics teacher, Maurice Cranston. As he points out, health care funding alone [a large component of which is income transfer to the elderly] "in 1950 was 4.5% of the gross national product, or something under $13 billion. By 1970 it had risen to 7.2% and by 1980 it was 9.5%, or $1,067 per person."[4] Of course, as to Social Security, it is common knowledge that taxes in that area have now moved into the spotlight as the largest single-purpose confiscation American producers and workers have ever had to fork over other than for defense.

How Longer Lifespans Threaten Welfare Agencies

How exactly would longer lifespans threaten such burgeoning agencies' status quo or expansion?

First, we should recognize that the operators of the agencies are not stupid. They know that for their bureaus to function, they must have a steady supply of money. But, when more and more people live longer and retirement and benefit-qualification ages remain the same, the ratio of benefit-recipients to benefit-supporters (taxpayers) goes up.

As the bureaucrats see it, there are only two ways to solve this dilemma. Either taxes must go up or mandatory retirement and benefit-qualification ages must rise. What we've actually gotten has been a mixture of both, with *most* of the mix consisting of higher taxes. The agency operators prefer the latter as long as their legislator-benefactors concur, which they've tended to do. For by raising taxes and not significantly raising age limitations, the bureaucrats and politicians together create an ever-larger political constituency of elderly recipients of income transfers.

So far, it would seem that our statists actually prefer longer lifespans. The more elderly recipients under their welfare wings, the better off the bureaucrats are politically—i.e., the less the likelihood that their agencies will be trimmed or terminated—right? Such is not the case. Sooner or later even the most economically jaded bureaucrat or politician must recognize certain financial realities. The primary reality in this context is that there is a point beyond which lifespans which are *too* long threaten the state's status quo by (a) forcing cutbacks in other *equally politically popular* redistribution schemes and (b) creating a backlash among the ever-smaller but still very large number of taxpayers. In other words, the welfare-for-the-elderly special interest groups find themselves fighting many other special interests, including other powerful bureaucracies and tax-rebelling producers and workers. This is the problem we approach in America today.

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Stop Promoting Longer Life!

What is the "logical" solution which springs into the minds of clever statist planners? It is: Stop encouraging research, programs, and policies which promote longer life. Is this an overstatement? Well, witness the "concerned" remarks, such as this typical one by Alexander Leaf, former head of the President's Special Commission on Aging: "To consider any extension of human life span without a serious effort to anticipate and plan for the impact of increased longevity on society would be entirely irresponsible."[5] At first glance this may sound innocent enough. But the implication is ominous: Unless we first have "social impact" studies of life extension research and actions, it is irresponsible to promote life extension; which means promotion of longer life—unless first cleared by society (i.e.—government, society's coercive agent) is to be condemned!

The argument is very similar to those which contend that new machinery should not be introduced without "labor impact" clearance. What we have is a fundamental attempt to subjugate life extension efforts to the will of the state. It is a kind of enforced life extension Luddism.

As Pearson and Shaw, the two most prominent life extension scientists in the U.S., wrote, "With this philosophy, we may not be permitted to extend our lives beyond the traditional three score and ten until the government figures out how to handle all the expenses and changes from widespread life extension."

"Is [Alexander Leaf's] comment merely an abstract point of no practical consequence?" they ask. Hardly. Extensive government health and welfare controls *have led* to development of policies restricting the extension of life. "Already, Britain's socialized medical service generally refuses to provide expensive treatments such as dialysis to patients over 65. The U.S. government already legally limits the number of hospitals that may purchase expensive CAT scanners and modern radiation therapy units, due to their impact on Medicare costs." And while the authors admit that these types of restrictions are touted as economy moves, "the people who made these decisions and the governments they work for face an inherent conflict of interest. These governments have colossal income-transfer programs, which take money from the young and transfer it to the old. . . . These programs and growing public awareness of advances in life extension research require that *choices be made* between the extension of human life span and the expectations of the electorate for ever more services at tax rates that they can afford. Either electorate expectations for government services must de-

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crease, or taxes . . . must increase, *or the human life span must be held constant by government policy.*"[6]

While public awareness of life extension research is indeed greater than a few years ago, considerable danger lies coiled in this political fact: There is no life extension special interest group even close to the size of other major political lobbies. Politically, this makes it possible for government agencies to, in a host of ways (such as FDA prohibition of free choice in use of potentially life-extending drugs), erode, inhibit, and block efforts of individuals and private organizations and firms to pursue a *free market* in life extension fields.

Statist Attack

This interventionism in the life extension market should surprise no one, for as Ludwig von Mises pointed out long ago, major bureaucracies are *by their nature* hostile to the free market. Opposition to a free market in human longevity is merely the latest in a long line of statist attacks on *all* market freedoms.

In order to thwart these attacks, a foremost requirement is for economists to speak out and present the case for the economic benefits of longer lifespans. Not nearly enough has been done, primarily because for many years, until our bureaucracies started to "overload" the economy, almost everyone assumed that longer life was a good thing. Most people still do and it is a tribute to the basic American sense of life and self-improvement. But now the economic attack—a *statist* attack, antithetical to those basic American values—has begun and it must be countered forcefully and lucidly.

Here are some starting points for those who wish to enter the battle:

(1) The freedom to choose and pay for life extending innovations and information derives from man's most basic right—*the right to life.* If he does not have the freedom to pursue the preservation and betterment of his life, then the right to life loses the anchor of reality. This means that the life-extension market must be completely deregulated. It means government must contract, not expand, its control over all fields affecting the right of individuals to make life-extending market choices. Consumers must be free to decide for themselves what medicines, drugs, vitamins, surgical procedures, research, and information will best benefit them—as long as they are willing to pay for them, as all consumers must in a truly free market.

(2) Producers of life-extending products and services should be freed to offer them in an unfettered marketplace. Quality control to protect consumers could be better handled by private evaluative groups such as Underwriters Laboratories, Consumer Reports, Standard and Poor's,

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and many insurance firms now do to assure high quality in various other market areas. There is no honest market need for government agencies such as the FDA, hospital-oversight boards, genetic research standards boards, quasi-governmental medical examining boards, or any of the myriad of coercive agencies which now exist for the alleged purpose of protecting consumers from the products and services affecting individual health—and lifespans. As has been well-established elsewhere, such oversight agencies end up restricting consumer choices—which means, they end up also restricting the ability of consumers to take steps which would enhance their physiological well-being and enable them to live longer. In short, heavily-regulated markets chop off the good with the bad.

(3) Extended lifespans also extend productive years. This is an important economic point. People these days are not only living longer, they are living in better health. Thus, a greater proportion of a person's years can be devoted to supporting his *own* life—which means a smaller proportion of his years will require the aid of others, including the aid of tax-supported bureaucrats. On the face of it, this should demonstrate that extending lifespans of individuals also enhances the life and health of the entire economy. With more people relying longer on their own productive efforts, there is less drag on the economy. Especially noteworthy is that longer lived people have more time to plan and prepare for their own retirements. An extended working life enables them to save and invest more money to be used when they finally step out of the work force in their less able years.

This is more true the freer the economy we develop, the fewer the arbitrary restrictions on retirement and the fewer the government programs we institute restricting people during their productive years. As things stand, government constrains the free market of labor by various legal ceilings on the working age.

Artificially low benefit-qualification ages also provide artificial incentives for the elderly to quit working earlier than they otherwise would and live at the expense of others—including other productive elderly people! The principle that welfare encourages more people to join the welfare roles applies as much to the elderly as it does to the poor.

Ideally, from a market perspective, mandated retirement ages should be completely done away with and welfare for the elderly should be phased out and replaced by private market alternatives—such as the many excellent plans which free market economists have developed to equitably phase out the Social Security System.

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(4) Finally, it is crucial to reassert a fundamental understanding of how free markets operate through division of labor. This is required not just for general economic progress anyway, but for progress specifically in the life-extension field. For if all parts of the field in a free market were allowed to interrelate, we would maximize the transfer of useful information, spurring innovation and progress to new speeds and new heights.

Perhaps more than anything else economic, it is a failure to grasp the principle of division of labor which permits public silence when particular divisions of labor (such as the life-extension professions) suffer the attacks of government. As George Reisman put it, "In the absence of such knowledge of economics, a modern nation like the United States is in the position of an ignorant crowd wandering among banks of computers or other complex machinery and randomly pushing buttons here and pulling levers there. For its people live in the midst of the division of labor, their lives depend on it, yet they do not understand it and are taking actions with respect to it whose effects they do not comprehend."[7]

It is for this lack of economic understanding that a generally pro-life-extension populace allows politicians and bureaucrats to randomly push the buttons and pull the levers of regulation on everything ranging from aspirin to zymology—all in the name of such package-deal slogans as "consumer protection" and "spreading the wealth." It is an ignorance and disrespect of the market which, if it continues, will some day lead a stunned public to ask why lifespans have stopped increasing and why no one ever repeats the joyous slogan, "Live Long and Prosper."

—FOOTNOTES—

[1]"Smoking and the Longevity Gap," *Science News*, August 13, 1983, p. 119.

[2]Harry B. Demopoulous in *Life Extension*, by Durk Pearson and Sandy Shaw, Warner Books, 1982, pp. xvii, xviii.

[3]"U.S. Pays 22% of U.N. Budget," A.P. wire, September 24, 1983.

[4]*Wall Street Journal*, August 24, 1983, p. 27.

[5]*Scientific American*, September 1973, quoted by Pearson and Shaw.

[6]*Life Extension*, p. 556, emphasis added to quote.

[7]*The Freeman*, March 1981, p. 184.

IDEAS ON LIBERTY

Maxwell Anderson

A free man has a value to himself and perhaps to his time; a ward of the state is useless to himself—useful only as so many foot-pounds of energy serving those who manage to set themselves above him.

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Hans F. Sennholz

Ideological Roots of Unionism

In economics, as in ordinary discourse, the word labor connotes the physical or mental exertion of a practical nature, as distinguished from exertion for the sake of play and enjoyment. Labor is performed in the production of economic goods or services that are useful and valuable. It may be rendered independently by an individual aiming at economic betterments and well-being, or it may be performed in the labor market for the sake of compensation that enhances economic well-being. It may be a contribution to the productive process in the form of work by body or mind. In short, labor is expenditure of vital effort, an indispensable characteristic of human action.

Dr. Hans Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He is a noted writer and lecturer on economic, political and monetary affairs.

Economists treat labor as a separate factor of production, distinguishable from natural resources and capital. From the beginning of economic thought by the ancient philosophers to modern economic theory, labor has been a distinct factor because it involves the efforts of human beings. Many writers are reluctant to apply economic knowledge and analysis to this distinct factor. There is nobleness and even sacredness in work, they proclaim, which do not allow for economic deliberation and price calculation. They devise economic doctrines and theories of their own and call for social reforms through legislation and regulation.

In a more special sense, the word labor connotes all workers collectively. It is the supply of labor in a country at a given time, the total manpower of a nation. The term is

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borrowed from the armory of military strategy and the political command system. It is used in the popular expression "national labor force," which includes all those persons, whether self-employed or wage-earning, who do any work for pay or profit, all those who have jobs as well as those who are unemployed but are seeking employment. In this sense it is the favorite term of all mainstream economists and government regulators.

In a yet narrower sense, the term labor is often applied to industrial and agricultural wage earners only. They are said to form the "working class," propertyless and helpless, engaged in an economic, social and political struggle with the ruling classes. It is in this sense that one speaks of "organized labor" seeking strength through political organization and collective bargaining.

The "labor movement" comprises all the organized activities of the working class. In the free countries of the West, it is engaged in three major types of activities—economic, political, and cooperative. The economic activities are carried on by labor unions eager to achieve job and income control through joint action. The political activities of labor usually aim at replacing the competitive private-property order with a political command system. In the United States they have mostly been directed toward government intervention designed to restrict free competition and open markets. The cooperative activities are visible in the formation of credit unions, pension funds, and other nonprofit organizations in the midst of private enterprises.

The economic literature of our age is but a mirror of the prevailing economic thought and doctrine. There is a vast literature on the labor movement, usually in full agreement with its many manifestations. Countless books intone the praises of its organization and history, and repeat a few vague old notions on labor's disadvantage and exploitation. But these old notions continue to provide the very ideological foundation of labor unionism and the labor policies of all contemporary governments in the Western world. Refuted and exploded innumerable times in the past, their power and vigor make it necessary to answer them again and again.

Labor's Disadvantage

It is rather difficult to trace a thought back to its original thinker. Old thoughts may never die. Once formed and uttered, embodied and expressed in fit words, they may walk the earth forever. The notion of labor's disadvantage is usually ascribed to Adam Smith, and has been held ever since by hosts of writers. A number of classical economists, above all, Jean Baptiste Say (1767–

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1832), J. R. McCulloch (1789–1864) and John Stuart Mill (1806–1873) repeated the idea, in time embellished it. The Cambridge School of Alfred Marshall (1842–1924) and A. C. Pigou (1877–1959) expanded and popularized it to justify workers' combinations and collective bargaining. The first president of the American Economic Association, Francis A. Walker (1840–1897), added his conception. Countless contemporaries continue to echo the old exercise.

The wage of labor, according to Adam Smith, depends on the contract made between workers and masters. But their interests are not the same. The workmen desire to earn as much, the masters to grant as little as possible.

The labor movement of the early 19th century may have sprung from the following passage in the *Wealth of Nations*, or at least may have received the master's approval and benediction: "It is not, however, difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute, and force the other into a compliance with their terms. The masters, being fewer in number, can combine much more easily; and the law, besides, authorizes, or at least does not prohibit their combinations, while it prohibits those of the workmen. We have no acts of parliament against combining to lower the price of work; but many against combining to raise it. In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacturer, or merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long-run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate."[1]

Say, McCulloch, Mill

The French writer Jean Baptiste Say did more to spread Smith's teaching in general and Smith's doctrine of labor's disadvantage in particular than any other writer. In his *Traité d'économie politique*, published in 1803, he repeated Smith's remarks and eloquently elaborated the implications. The wants of the masters, according to Say, are less urgent and immediate than those of the workers who without gainful employment would soon be reduced "to the extremity of distress." This circumstance, Say concluded, must have its effect on the rate of wages both parties tend to accept.[2]

J. R. McCulloch, in his 1851 *Treatise On the Circumstances which Determine The Rate of Wages and the Condition of the Labouring Classes*

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eloquently repeated the Smith doctrine in defense of union organization and activity. Trade union leaders quoted McCulloch and thousands of pamphlets spread his views on the benefits of labor combination. Actually he was merely popularizing Smith's doctrine of labor's disadvantage.[3]

John Stuart Mill, who dominated the intellectual scene in Britain and the United States for nearly half a century, professed two different theories of labor combination. In his younger years he was rather skeptical about labor's ability to improve working conditions through combination. In his *Principles of Political Economy* he spoke of "narrow limits of power" beyond which union activity would keep "a part of their number permanently out of employment."[4] Combinations may be successful only where the work-people are few in number and are concentrated in local centers. They may impose higher costs on employers who will pass them on to consumers in the form of higher prices.

Some twenty years later Mill presented a different theory of the prospects and consequences of combination. Under the influence of his friend, W. T. Thornton, he not only reproduced the doctrine of labor's disadvantage but also invoked his "standard of morals" on behalf of labor unions. He mixed his economic beliefs with his moral convictions and arrived at an ardent labor union doctrine. The laborers' wages, according to Mill, tend to fall within a certain range the higher limit of which is "consistent with keeping up the capital of the country," and the lower limit of which "will enable the labourers to keep up their numbers." Unable to resist even a single employer, and surely the tacit combination of employers, the laborers must yield. Their wages, as a rule, are "kept down at the lower limit." When laborers combine in a union that includes "all classes of labourers, manufacturing and agricultural, unskilled as well as skilled" they may achieve the higher limits. Whoever adheres to "a standard of morals" must wish "that the labourers may prevail."[5]

Walker, Marshall, Pigou

Francis A. Walker (1840–1897), the outstanding American economist of his time, justified combinations on grounds of "impaired" or imperfect competition which may work against the workers. Adam Smith provided his guideposts: "Masters are always and everywhere in a sort of tacit, but constant and uniform, combination not to raise the wages of labor above their actual rate." (*The Wealth of Nations*, pp. 66–67, quoted by Walker, *The Wages Question*, p. 392). In the name of justice and "for the peace of industrial society," labor must be permit-

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ted to play the same game. Professor Walker, therefore, concurred with Messrs. Mill and Thornton and all other defenders of trade unions. But he added a reservation that continues to be heard even today, a century later: Labor unions served a useful purpose in the past, but have lost their justification in the present. In his own words, "My difference with such defenders of trades-unions as Mr. Thornton is merely as to the time when these should be put away as an outgrown thing. I find no ground for expecting any benefit to the wages class as a whole, from restricting the access to professions and trades in any country where education is general, where trade is free, where there is popular tenure of the soil, and where full civil rights, with some measure of political franchise, are accorded to working-men."[6]

Alfred Marshall (1842–1924), one of the great names in the development of contemporary thought, had such great influence on his fellow economists that the first quarter of the 20th century can probably be called the "Age of Marshall." Much of the Marshallian framework remains intact today, in the last quarter of the century.

Marshall elaborated Smith's doctrine of labor's disadvantage and embellished one of Thornton's original thoughts that "labour will not keep." Labor may be at a special disadvantage because it is "perishable" and the sellers are too poor to withhold it from the market. The want of reserve funds is common especially to all grades of unskilled labor, the wages of which leave little margin for saving. Moreover, unskilled workers are most numerous and always eager and capable of taking each others' places, which makes a laborer's disadvantage cumulative in two ways: "It lowers his wages; and as we have seen, this lowers his efficiency as a worker, and thereby lowers the normal value of his labour. And in addition it diminishes his efficiency as a bargainer, and thus increases the chance that he will sell his labour for less than its normal value."[7]

The Economics of Welfare

Arthur Cecil Pigou (1877–1959) was the successor of Marshall as professor of political economy at Cambridge University. He was, it may probably be said, the last member of the Cambridge School, which John Maynard Keynes made his chief target of attack. Pigou's *Theory of Unemployment* (1933), especially, embodied the "classical economics" that was loudly rejected by Mr. Keynes. But Keynes never objected to Professor Pigou's doctrine of labor combination and union activity, or his notion that the pricing process allowed for a margin of "indeterminateness" that was available for collective bargaining.[8]

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In his celebrated opus *The Economics of Welfare*, Professor Pigou depended on collective bargaining to prevent the "cutting or nibbling" of wage rates. In fact, he sounded like a socialist who is firmly convinced of the power of employers to "exploit" their weak and defenseless workers, especially through piece-wages. In his own words, "When a bad employer succeeds in 'nibbling' the rates, his success makes it difficult for his competitors to refrain from following his example, and is apt, therefore, to start a cumulative movement. But it is not necessary that piece-rates should be fixed by individual bargaining. In this fact the solution to the problem may be found. For collective bargaining furnishes a guarantee against the kind of nibbling which is really exploitation, and also makes it easy to provide machinery—whether joint-committees or jointly appointed rate-fixers to adjust particular rates."[9]

There Is No Margin of Indeterminateness

If eminent economists from Adam Smith down to our age professed such forceful doctrines it cannot be surprising that multitudes of lesser writers joined in the chorus, that nearly every man of public affairs continues to identify himself with the eminent economists, and every union spokesman proudly echoes the doctrines. But no matter who may sponsor the precept, how often it may be repeated, and how popular it may be, it cannot possibly stand a critical analysis. It contradicts basic economic knowledge and clashes with economic reality.

The doctrines of labor's disadvantage and deliverance by collective bargaining are "short-cut doctrines" that promise instant relief and improvement through collective force. They probably spring from sympathy for the hardships of the poor which is a noble passion of the human heart, and from the most beneficial of all the affections—hope—which is the only universal cure. They promise an exciting shortcut to income and wealth without the pain of extra effort and labor and without the arduous task of capital formation that makes human labor more productive. And lest we forget, they bring popular applause for "goodness" and "benevolence" although they pave the way for so much folly and suffering.

There are no shortcuts to economic production and income. Wage rates for any kind of labor, from complex mental labor to simple physical exertions, are determined by the anticipation of the service they render to human well-being. In particular, they are determined by anticipation of the price that can be obtained for the increment of goods and services expected from the employment of the worker. Economists

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call this increment the "marginal" product that determines the compensation for every kind of labor. It can be made to rise through greater labor exertion and improvements in the quality of labor. It may be raised with the help of more capital and application of more productive methods of production. But it cannot be made to rise through collective bargaining. There is no "margin of indeterminateness" that can be appropriated by militant labor unions. There is no "no-man's land" in which the biggest battalions determine the outcome of the battle.

In a private-property order labor is treated like any other factor of production bought and sold on the market. Employers need to buy materials and supplies, tools and equipment, and all kinds of specific labor. To stay competitive and serve his customers best, an employer must buy the needed factors at the lowest possible prices. But the prices he offers must be high enough to secure the necessary supplies from the sellers, outbidding all other competing buyers. He may make mistakes in his bidding for the factors of production. He may bid to pay more than the going rate, which raises his costs of production and invites offers in excess of his needs. If his bids are lower than the market price, he may not be able to secure the needed supplies. A businessman who continues to make such mistakes, i.e., incurs higher costs than his competitors or fails to obtain the needed supplies, will, in time, cease to be a businessman. Someone else more capable of judging prices will take his place.

Employer Combinations Are Ineffective

Even if employers were to combine openly or tacitly to keep wages below the marginal rate, to which Adam Smith alluded, their sinister efforts would be destined to fail. If they would pay less than the full rate, they would render the employment of labor more profitable. New entrepreneurs seeing new opportunities for profits would appear on the market and bid for more labor, which would bring wage rates right back to the marginal productivity of labor. Even if employers would manage to prevent the arrival of newcomers through institutional barriers, such as government licenses and permits, their open and tacit combinations would soon fail because they themselves would be tempted to buy more labor at such bargain rates. They would be tempted to expand their activities, bidding for more labor in any way conceivable. After all, there may be small employers who would like to grow, some who are young and eager, some who are poor and desperate, perhaps on the brink of bankruptcy. They all may want to hire profitable labor in order to reap the benefits. If they cannot raise

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wage rates, they may want to adjust working conditions, improve fringe benefits, or compete effectively in countless other ways, which once again would raise labor compensation to the marginal rate.

Employer combinations designed to restrain wage rates ignore many other factors of labor compensation that remain the objects of competition. In this respect a combination agreement is like a wage "freeze" or "stop" imposed by a fuddled government; it may arrest a single factor of competition, the rate of wages, but tends to stimulate the competition for labor in countless other ways, from generous expense accounts to country club dues. If government cannot effectively enforce a wage stop, using threats, fines and brute force, it is unlikely that an association of employers, or even a national association of associations, lacking that force, can lower wage rates.

If it is true that employers compete with other employers in countless subtle ways, it is rather futile and unwise to enter into restraint agreements and wage combinations. This fact alone, which undoubtedly is well-known to experienced businessmen, points at the obvious conclusion that the colorful reports on employer combinations, today or from the distant past, are probably overstated and exaggerated.

Comparing employer combinations with worker combinations, that is, labor unions, the basic differences become apparent immediately. While employers tend to compete openly and tacitly to engage the needed labor, labor unions actually prevent the competition of their members. Employers may evade a wage agreement in countless different ways; workers may not be able to escape the union command. They face an agonizing decision: to cross or not to cross the picket line. Employers are virtually free to compete in the labor market; workers are not. They may live under the threat of brutal retaliation not only at the picket line but also at work and at home.

Surely, to be more competitive in the labor market, an employer may openly improve the fringe benefits of his workers without inviting any physical danger to himself or his family. A worker who ignores his union command and actually crosses a picket line may jeopardize all his property and risk bodily harm not only to himself but also to his family. It must be concluded, therefore, that combinations and organizations of restraint are rather ineffective among employers. But they may be highly effective in their design to restrict competition when they consolidate and syndicate the workers.

Workers Can Wait

It is said that workers cannot wait for remuneration and, therefore,

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suffer a disadvantage in their bargaining position toward employers. "The masters have the advantage," according to Adam Smith. The workers without gainful employment would soon be reduced "to the extremity of distress," according to Jean Baptiste Say. Thus stated by the mentors their disciples have been repeating it ever since.

This ability-to-wait theory of income obviously is moving in a vicious circle. It ascribes disadvantages to poor laborers who cannot wait, and explains their inability to wait with their lamentable poverty. The masters can wait because they are affluent, and they are affluent because they can wait. Actually, the ability to wait has no bearing on wage determination unless it is the ability to withdraw permanently from the market. Withdrawal of labor raises the marginal productivity of labor just as the withdrawal of capital raises that of capital. But such a withdrawal, if it is conceivable at all, would reduce total output and thus total income. It would aggravate everyone's economic conditions but especially those of workers who chose or were forced to withdraw.

The inability-to-wait doctrine, which lives on in contemporary economic literature, received considerable intellectual support from Thomas Robert Malthus and his theory of population. Nearly all classical economists were convinced that the power of population is indefinitely greater than man's power to produce subsistence. Population, when unchecked, increases in a geometrical ratio. Subsistence only increases in an arithmetical ratio. The disproportion unfortunately condemns the least productive class of population to hopeless misery and poverty.

Malthus and Population

The Malthusian law of population indisputably explains economic conditions in many parts of Africa and Asia where additional quantities of means of sustenance are immediately absorbed by additional numbers of people. But in capitalistic societies with economic freedom and private property in the means of production, with private initiative and entrepreneurship, economic production tends to outpace by far the proliferation of population. Freedom thought and policy always bring unprecedented economic development together with declines in birth rates and mortality rates, which significantly raise the levels of living and prolong the average human life. If working people no longer hover at the subsistence minimum the Malthusian law of population cannot be made to support the inability-to-wait doctrine.

The doctrine nevertheless lives on, nourishing labor combinations and commending collective bargaining.

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It never explains why workers acting in concert have greater holding power than workers acting individually and alone. After all, human wants and basic needs for sustaining human life are always individual. It is true, an association of workers may pool member resources and thereby consolidate and equalize the hold-out period. It may save membership dues and accumulate a strike fund for distribution during "waiting periods." And above all, it may concentrate its holding power on a *single employer*, inflict or threaten to inflict painful losses on him in order to make him submit to union demands. Such tactics of worker combinations leave employers no choice but to form their own defense organizations that can meet the workers' collective power with holding power of their own. Most employer associations sprang from this necessity of self-defense.

Employers organize in self-defense from labor organizations defending themselves from alleged "cutting," "nibbling," or outright exploitation. Both sides are often locked in a bitter struggle of self-defense, which is testing their ability to wait, impoverishing both and hurting the public. Both sides act like pawns in the game of economists who call it "cutting" or "nibbling" with its predictable consequences.

Are employers capable of cutting and nibbling in the absence of powerful labor unions? They are as capable or incapable of nibbling at the price of labor as they are with other prices for materials and supplies, water and electricity, or travel facilities. In the case of labor, as with many other factors, employers may have a choice between many grades and qualities. What may appear like "nibbling" and "cutting" may actually be the purchase of mediocre labor. Workers differ greatly not only in learning, training, and skills but also in dependability, conscientiousness, honesty, cooperation, and goodwill. Some employers may choose to attract only the most productive workers by offering the highest wages; others may try to get along with mediocre labor, paying average wages; others yet who may have special skills in handling difficult labor may try to make do with less expensive labor. They all mean to achieve the lowest costs per unit of output in order to serve their customers best.

"Labor Is Perishable" and It "Will Not Keep"

In its crudest form expressed by Professor Marshall, the inability-to-wait theory calls for collective defense on grounds that labor is "perishable" and that it "will not keep." This startling observation obviously implies that, in contrast to labor, capital is more durable and therefore stronger than labor. Unfortu-

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nately, this whole line of reasoning is flawed rather seriously because it compares two incomparable qualities: labor services with the productive life of tools and equipment. It is specious reasoning which would become apparent immediately if employers were to use it: "We are unable to wait, when compared with labor, because corporate profits and interest income are 'perishable,' but laborers are not." If Marshall had compared labor service with capital service, or labor income with capital income, he would have noticed that all types of income are "perishable." During periods of labor strife and idleness, the services of both capital and labor do not "keep"; both lose time, income, and wealth through inactivity.

Contrary to the pronouncements by the eminent economists, many workers can wait longer than their employers. Small employers are no match for laborers organized in industry-wide unions. Many large employers are "marginal," that is, are operating at the margin of profitability covering expenses and earning a going rate of return. Some employers may be "submarginal" earning less than the going rate. Some may even suffer losses. When labor unions choose to test the ability to wait the weakest employers suffer the greatest pain in the form of calamitous losses, which may spell ruin and bankruptcy. All other producers may be forced to curtail operations and reduce output.

Many classical economists were unduly impressed by the economic strength of the masters. According

Bargaining

BARGAINING is not facilitated by a powerful membership organization of competitors, whether they be competing for wages or for profits or for anything else which is scarce enough to have market value. It is a highly risky thing to delegate one's own right to bargain to any representative who pretends that such organizational control of competition is either necessary or desirable. A bargainer is one who cooperates with those who are willing; for that purpose, he needs no power of compulsion. He doesn't need coercive control of competitors. Such controls are the tools of persons who will use force if bargaining doesn't go to suit them. Those who are still free to bargain, and who like it that way, will think carefully before placing in the hands of others those personal rights and responsibilities which might be perverted into weapons of coercion.

PAUL L. POIROT

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to Jean Baptiste Say, "There are few masters but what could exist several months or even years, without employing a single labourer, and few labourers that can remain out of work for many weeks, without being reduced to the extremity of distress." Surely, few American corporations could suffer a strike of several months or even years without jeopardizing their economic survival. And few French companies could have suffered through lengthy shutdowns in 1803 when J. B. Say wrote these lines. They, too, had to pay taxes, interest on loans, and high overhead costs regardless of operation and output. They, too, suffered grievously through time wasted, income lost and opportunities forgone.

The classical economists never were "masters" meeting payrolls and interest payments, facing deadlines for tax payments to various government authorities, or suffering frightening losses from sudden changes in market conditions. They probably never confronted labor unions that meant to inflict maximum harm on the owners. The great writers were academicians motivated by genuine sympathy and empathy and guided by deep feelings of good will for the poor.

Inapt Reverence for the Past

In all matters of labor relations public feeling is apt to side with the laborers. Their poverty, presumed or real, is like a badge of courtesy to which the public readily pays homage or at least demonstrates respect. Most economists who are mindful of public opinion are quick to render honor to labor combinations. In want of a labor union rationale, but guided by considerations of courtesy and public opinion, they may dwell on the history of labor and make much of the distant past.

Francis A. Walker was one of the first to question the present and salute the past. He added a thought to the intellectual armory of unionism that continues to haunt us even today, more than one hundred years later. No longer finding any ground "for expecting any benefit to the wages class" from labor combinations, he raised the questions of "when these should be put away as an outgrown thing." In short, he suggested that labor unions may have lost their justification in the present (1876), but that they were most useful in the past. He bestowed honor and prestige on labor unions by imputing a virtuous and glorious past.

Economics as a theoretical science elaborates eternal, inexorable principles of human action. It deals with the means man must apply in order to achieve attainable ends. History is but a register of human efforts and blunders which cannot confirm, refute, add to or subtract from economic knowledge. It cannot uncover

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benefits of labor combination in the present or the past if economics finds "no benefits to the wages class." History cannot reveal benefits to all workers if economics demonstrates convincingly that union tactics cause unemployment. Historians should not proclaim the benefits of labor combination and collective force if economists can show that such force not only reduces economic output and thereby hurts consumers, but also inflicts serious harm on unemployed workers.

The unhampered market order allocates to every member the undiminished fruits of his labor. It does so in all ages and societies where individual freedom and private property are safeguarded. It did so 2,000 years ago in Rome, in eighteenth-century England, and in nineteenth-century America. The reason our forefathers earned $5 a week for 60 hours of labor must be sought in their low productivity, not in the absence of labor unions. The $5 they earned constituted full and fair payment for their productive efforts. The economic principles of the free market, the competition among employers, man's mobility and freedom of choice, assured full wages under the given production conditions.

Wages were low and working conditions primitive because labor productivity was low, machines and tools were primitive, technology and production methods were crude when compared with today's. If, for any reason, our productivity were to sink back to that of our forebears, our wages, too, would decline to their levels and our work week would lengthen again no matter what the activities of labor unions or the decrees of government.

Most historians are not economists who elaborate the inexorable principles of human action. They like to portray the Industrial Revolution as a disaster that brought untold misery to the working classes. They hail progressive governments and courageous labor unions for having offered relief to the suffering masses. To them the coercive power of both government and labor union is a necessary instrument for balancing the economic powers of the masters. To economists such an interpretation of history is deficient in basic economic knowledge. They view the Industrial Revolution and the phenomenal improvements of labor conditions and income as a great achievement of economic freedom. It set people free to apply science to industry, and to form and use capital in economic production.[10] The rise of unionism during the past two centuries is seen as the result of fallacious economic doctrines about laborers' disadvantage. Labor unions are the bitter fruit of erroneous theory, with a record of abuse far more grievous than the alleged evils the unions were supposed to rectify.[11]

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—FOOTNOTES—

[1]Cf. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations,* 1776 (New York: The Modern Library, 1937), Book I, Chapter VIII, p. 66.

[2]Jean Baptiste Say, *A Treatise on Political Economy* (1803), Third American Edition, 1827, "The wages of the labourer are a matter of adjustment and compact between the conflicting interests of master and workman; the latter endeavoring to get as much, the former to give as little, as he possibly can; but, in a contest of this kind, there is on the side of the master an advantage over and above what is given him by the nature of his occupation. The master and the workman are no doubt equally necessary to each other; for one gains nothing but with the other's assistance; the wants of the master are, however, of the two, less urgent and less immediate. There are few masters but what could exist several months or even years, without employing a single labourer; and few labourers that can remain out of work for many weeks, without being reduced to the extremity of distress. And this circumstance must have its weight in striking the bargain for wages between them." (p. 294)

[3]"Few masters willingly consent to raise wages; and the claim of one or of a few individuals for an advance of wages is likely to be disregarded so long as their fellows continue to work at the old rates. It is only when the whole, or the greater part, of the workmen belonging to a particular master or department of industry combine together, or when they act in that simultaneous manner which is equivalent to a combination, and refuse to continue to work without receiving an increase of wages, that it becomes the immediate interest of the masters to comply with their demand. And hence it is obvious, that without the existence either of an open and avowed, or of a tacit and real combination, workmen would not be able to obtain a rise of wages by their own exertions, but would be left to depend on the competition of their masters." (New York: Augustus M. Kelley, 1963), pp. 79–80.

[4]*Principles of Political Economy* (1848), in "Collected Works of John Stuart Mill" (University of Toronto Press, 1965), Vol. III, p. 930.

[5]"Thornton on Labour and its Claims" in "Fortnightly Review" May 1869, *Dissertations and Discussions, Political, Philosophical, and Historical* (New York, 1875), pp. 74, 75.

[6]*The Wages Question: A Treatise on Wages and the Wages Class,* (1876) (New York: Holt, 1904), p. 406.

[7]*Principles of Economics,* (1890), 8th edition (London: Macmillan & Co., 1920), p. 473.

[8]*Principles and Methods of Industrial Peace* (New York: Macmillan, 1905), p. 36. Also *The Economics of Welfare* (1920), Fourth Edition (London: Macmillan, 1932), pp. 557, 558: "Insofar, however, as movements of workpeople are hampered by ignorance and costs, a monopolistic element is introduced into the wage bargain. Consequently, there is created a *range of indeterminateness,* within which the wages actually paid to any workman can be affected by individual 'higgling and bargaining.' The upper limit of this range is a wage equal to the value of the marginal net product of the workman to the employer engaging him. . . . The lower limit is a wage equal to what the workman believes he could obtain by moving elsewhere, *minus* an allowance to balance the costs of the movement. The width of the gap between the workers' minimum and the employers' maximum varies in different circumstances. It is made larger when the employers in a district tacitly or openly enter into an agreement not to bid against one another for labor, since, in that event, the alternative to accepting terms from them is to seek work, not near by, but perhaps in an unknown district."

[9]*The Economics of Welfare,* p. 483.

[10]Cf. T. S. Ashton, *The Industrial Revolution* (Oxford University Press, 1948); F. A. Hayek (ed.) *Capitalism and the Historians* (University of Chicago Press, 1954).

[11]Cf. W. H. Hutt, *The Theory of Collective Bargaining* (Glencoe, Ill.: The Free Press, 1954); Charles E. Lindblom, *Unions and Capitalism* (New Haven: Yale University Press), 1949.

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Richard H. Crum

CAPITALISM AND HUMAN NATURE

THE RETREAT from reason takes many forms. One of its strongest thrusts is the irrational drive of twentieth-century man, led by the irrationalists of the state and their intellectual acolytes, to enchain the producers in society. This they do by physical force, which is the state. Defying the laws of human nature and the principles of economics, they suppose that "somehow" it will succeed. What they mean is: "somebody" will pay.

It is unnerving and sad to see our wonderful, diverse and interesting country slide toward the dull stagnation of over-governed Britain, where the rich somehow remain rich but a newcomer trying to build his own business can get crushed by official paperwork and taxes. America is not perfect, but it is much closer to it economically than any other country—thanks, largely, to that maligned evil—profit: the devil for which intellectuals like Michael Harrington, in *The Twilight of Capitalism*, blame the energy crisis, urban blight, stagflation, youth crime, lax school discipline and almost every other social ill.

Such critics base their entire historical outlook on a parochial interpretation of the politico-economic crisis in the United States in the early 1930s. They seem genuinely to believe, like Eliphaz the Temanite in his dialogue with Job (XXII 5-10), that the very fact that a man is rich proves him to be a public robber. Even George Santayana, in a letter to Sidney Hook, said of our current system of production: "This labour in fact subtracts from their value, in so far as it is forced labour; and this is the crying sin of our industrialism: that it forces millions of men to

Richard H. Crum is now retired, having taught history and the classics at Lehigh University.

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labour hopelessly in order to supply themselves—or the capitalists among them—with a lot of rubbish." (Published in *Modern Age*, Spring, 1977, p. 78)

There are two ways of living off others: free exchange or coerced exchange, trading or taxing and taking, cooperation or war. When a sufficient number of nonproducers has reached the public trough, you have inflation. Then the cry goes out for more controls. But controls tell lies. So-called price-controls are economic falsehoods by which people are placed in deeper bondage. There are no shortages in the free market, only under government intervention. The first duty of a citizen is to see through the deceptive jargon of his would-be rulers. Capitalism releases the human spirit. All other systems mask and enslave it. Freedom is the invisible hand, the magnetic force that draws from each of us his best service to others.

Statist economies always stagnate, collapse and produce general poverty. The reason: stagnation is contrary to the facts of human nature. Collectivist economists, in their attempt to repeal these facts, betray themselves into the logical absurdity of asserting that slavery could not have achieved the wonders of a free economy, but that in a complex technological economy we must have slave labor, *i.e.*, government controls and exorbitant taxation.

Consequences of Compulsion

Observe the psychological consequences of being compelled to live in a Communist society. People simply steer clear of politics, try to stay out of trouble, work as little as possible and acquire what consumer goods they can to make life tolerable. "I would say 98 percent of the people are just apolitical," one Western diplomat said. "They work at their jobs as little as possible and worry about how to get a car and get away to a cottage in the country." They do open up now and then, and slyly. "We are building a new metro," one Prague man said. "It is being built on the Russian system. It will be finished in 27 years."

An example of the sour jibes at the Workers' Homeland in satellite countries is this. A Russian man sees his friend Alexei coming down the street one snowy day wearing only one shoe. "Ah, Alexei," he says, "I am sorry to see you have lost a shoe." "No," Alexei says, "I have found one."

Bribery in Communist countries is a routine of life. Medical service is free. But if you want to jump to the head of a long line at the clinic or doctor's office, you slip someone a bribe. If you want a good cut of meat, you slip the butcher two packs of cigarettes. "You have to pay a bribe for everything," one working wife complained.

Money can't buy food when grocers don't have it to sell. In Iron

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Curtain countries it is not unusual to walk a mile to the grocery and stand in line for butter. When your turn comes, you may be told there is no butter, or no meat or even vegetables. It seems almost impossible that in a farming village people would be without produce, but the state gathers up farm products and then distributes them around the country.

Note what has happened in the United States in the past half century to the comparative costs of mailing a letter versus making a long distance call on our privately owned telephone system. So the government has broken up the Bell system. The same government has decreed that A.T. & T. may earn only 7½% as a result of its enormous inventiveness and investment in plant, structure, brains and equipment. You can get 5% in a bank or 12½% in a mutual bond fund by just sitting still. If a company shows good earnings, it immediately has Internal Revenue on its back bleeding it of well over 50% under the pretext of the "Undivided profits tax." The enterprise that feeds, supplies and provisions us is already subject to minimum wage and maximum profit regulations. How long will it be before the arc is closed—with limitation of maximum wage? Marxian economics will then be complete.

Now it is true that experienced observers—at least those with earthy shrewdness—are gravely concerned about the concentration of ownership and control, the growth of profitable holding-companies, mergers and conglomerates. When this process extends to the marketplace of ideas, as in the growing number of one- and two-newspaper cities, it is especially disturbing, because ideas are the most important thing in the world and publicity is the most powerful instrument that can be wielded. But the answer to concentration of power in the hands of patroons is not concentration of power in the hands of politicians. Grafting reform of limited abuses with unlimited ambition has started the political fortunes of several American family trees.

No One Knows How to Make the Command Society Work

It is commonly better for the managers of a command economy if fifteen men are assigned to do one man's work. So assigned or not, that is approximately what fifteen socialist workers will normally do. They have and can have no incentive to do otherwise. The managers can have no rational way to allocate resources to their most desired and effective uses. As F. A. Hayek demonstrated so memorably in *The Road to Serfdom*, no one knows how to make socialism work.

Two centuries ago we were a poor nation where men and women

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worked 12 to 18 hours a day at least six days a week. Child labor was required for most families to survive. Horses and oxen plowed fields and pulled wagons. Electrical power did not exist. The internal combustion engine was a hundred years away. There was no running water in homes. Life was hard. We know what we have today by contrast. Wages have reached a level unprecedented in any economy. We produce in an hour what it took our forefathers a week to produce. We travel in five hours a distance that took them six months. One half of all the goods produced in the past 10,000 years have been produced in the United States in the past two hundred.

"Oh, but capitalism failed dismally during the Depression," someone says. The answer is that the whole complex of make-work projects, WPA, PWA, CCC and the rest, did nothing for the economy.

Today the beneficent oak which was our strength is in trouble. The problem is big, centralized government which has encrusted the roots and branches with such parasitical mushrooms as CAB, EPA, EEOC, FAA, FCC, FPC, FTC, ICC, NLRB, OSHA and SEC. All these bureaucratic regulatory agencies have grown at the expense of our free enterprise system. They exercise control over our lives, telling us and the businesses we own and for which we work what we can and cannot do. Not one of these burdensome bureaus was required to make America's economy the greatest on earth.

One Control Leads to Others

Experience with human action shows that there can't be a little socialism, any more than a man can partly murder or a woman be partly pregnant—there can only be a lot. Every measure to control any aspect of the economy dislocates some other aspect or activity. The latter, being closely tied in, therefore requires control in turn. The great oak can give its vitality to mistletoe and still thrive, but there comes a point when any parasite will destroy its host. The pretty bindweed with its bright pink morning-glory blossoms must be snipped off at the root or it will strangle the chrysanthemum and the rose. Let political direction invade any area of economic or cultural life and it constricts, winding itself round and round sprouting vested interests bound to insure its perpetuation. Then farmers insist that we continue to pay them not to farm, educators raven for federal funds and direction, we have "urban renewal" fiascos, womb-to-tomb paternalism.

Can we frame a plan or elect a planner that will efface in other people a myriad intellectual errors and emotional compulsions? Who would be so rash as to claim he can dispel every mistaken notion from his friend, or indeed even from himself?

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Socialism, as Leonard Read constantly reminded us, will wither away when we fix our attention on a better idea. Looking back on the process, we shall hardly know at what point the unsound idea was replaced by a sound one. We need a growing comprehension of the miracle of the free market, a sort of Gresham's law in reverse: a good idea driving out a bad one.

Historically, with sporadic but blessed exceptions, government has shackled and robbed. In a free society, instead, it would be limited to protecting against violence and fraud. Healthy growth would proceed naturally from the innate impulse of every person to improve his situation.

The Key to Progress

Capitalism challenges us to save, invest, invent new tools and better methods, employ others in the endeavor to maximize earnings by providing an improved product at lower cost. But more than that, there is a relationship between a life in business and a stable and mature adult personality. Here we have, not a faultless, but to a measurable degree a rational and even humane system of rewards in return for productive effort expended. Private enterprise can produce more sensibly motivated and competently educated children, more creative ferment in the arts, better sensitized achievable and spontaneous social conscience, and so on through the categories of meaningful life.

The ethics of enforced altruism, as in China, will play itself out sooner or later. Here is the way things should be: each person with eyes on his own aspirations, spiritual and material, not on another's satisfaction. When each makes the most of himself or herself—enlightened self-interest—then each becomes your and my servant unknowingly. Paradoxical as it sounds, in a free society, with all too human exceptions, every man and woman is going about doing what he or she wants to do.

The vital distinction between the market economy and the welfare state is simply rights and opportunities *versus* handouts. Our real problem is overgrown government. Its rightful function is to implement justice according to agreed-upon rules, to keep the peace, maintain a fair field with no favoritism. Let each of us put this question to himself: Do we genuinely believe in the free market for the conduct of creative activities as superior to controlled exchange, whether in industry, farming, education, or whatever? If the answer is yes, we are making progress in understanding freedom.

With his manuscript, Professor Crum offered his list of some 87 volumes of references or readings on liberty. A copy of that list is available on request.

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Bernard Baruch

BACK IN 1941, when I was assigned with Eunice Clark, the granddaughter of economist John Bates Clark, to do a story on American war preparedness for *Fortune,* publisher Harry Luce suggested that we might take counsel from Bernard Baruch, the old chairman of the World War I War Industries Board. The experience of talking with Baruch was both fascinating and hair-raising. He threw himself into the story as if it were his own. But when the article appeared he called up to express his disappointment. "Did Harry Luce lose his nerve?" he asked.

What had actually happened was not Luce's fault. Baruch's projections of the cost of the coming war had seemed so huge to us that we had, for publication purposes, cut them down to what we considered a "reasonable" figure. We were, of course, wrong. The war itself made Baruch's outside figures seem all too conservative. Nevertheless, the old Wall Street veteran, who was used to keeping a wet finger to the wind, had a more certain sense of the future than anyone else at the time. Harry Luce used to quote Baruch's ruling admonition, "Keep your face toward the sound of the guns."

James Grant, formerly of *Barron's* magazine, gets to the essence of Baruch's seemingly equivocal character in a spirited and well-written biography, *Bernard Baruch: The Adventures of a Wall Street Legend* (New York: Simon and Schuster, 376 pp., $19.95). Baruch, the son of a South Carolina doctor who had come to America to escape the Prussian draft, distrusted the power of the state. He believed in free markets. As a governor of the New York Stock Exchange in the pre-World War I period, he opposed government regulation. A southerner transplanted to New York, he was a Democrat with a capital D, which meant, at the time, that he followed Andrew Jackson in his preference for hard money and free trade. "His lifelong approach to economic problems," says Grant, "was the fundamental notion that people must work and save." When asked about foreign lending, Baruch said he would use it sparingly, and only on condition that recipient governments would establish free trade in return.

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A Market Operator

As a market operator, however, Baruch knew that governments would always be vulnerable to special interests. Baruch's first great market killing was in sugar. With his eye on Washington he had a gut feeling that the sugar beet politicos of Colorado and Utah would win out in a log-rolling deal with Louisiana cane sugar raisers to keep the sugar tariff high. The year was 1897, and Wall Street was betting the other way. Baruch put $300 into the market, and kept parlaying it (with canny stop-loss-order protection) until he had a profit of some $60,000. He promised his intended wife that he would hang on to the money, and on the basis of that promise she married him. As a matter of record, Baruch bestowed two-thirds of his profits on his family, buying a seat on the Stock Exchange for his brother Harty on condition that his brother would give up acting.

Grant's story of Baruch's vicissitudes as a market speculator is dispassionate. Baruch was no superman, and he had to learn the hard way that tips, even when supposedly well-authenticated, could lead to disaster. Baruch lost money in coffee when he failed to outguess the nature of Brazilian growing seasons. But he was in his element in dealing with metals. Cultivating the Guggenheims, he amassed an encyclopedic knowledge of world metal resources. He was also in on the ground floor in sulphur. He was as much an investor as he was a speculator when it came to buying metal stocks.

In the period after the 1929 crash Baruch made mistakes like everybody else, but he never got extended on margin. Where he had been worth some 22-to-25 million dollars in 1929, he came out of the Hoover years with some $16 million intact. It was not a brilliant performance, but it was nothing to cry about. Baruch would have done better for himself if Roosevelt had not forced him to turn in his gold. But he made money in gold mining stocks, which continued to pay dividends at a time when capitalists such as Ivar Kreuger and George Eastman were killing themselves.

Power, Party, Friendship

Good libertarian though he was in theory, Baruch was always willing to sacrifice philosophic consistency to considerations of power, party and friendship. His desire to be of help to his hero Woodrow Wilson moved him deeply into a wartime socialism as head of the War Industries Board. Thereafter Baruch was always ready to support such dubious measures as price-fixing even in domestic crises. He was against inflation, but when the Supreme Court invalidated the gold clause he wired his congratulations to Roosevelt in the White House. His inconsistencies made it

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impossible for anyone to predict where he would next turn up on the ideological compass. In 1937 he predicted to Winston Churchill that "all the 'managed currency nonsense' would soon disappear." But World War II intervened, and Baruch, as the World War I War Industries Board czar, was back in the business of advocating total centralized control of the economy.

Grant speaks of Baruch's later years as an "industrial statesman" as offering a "masterpiece of irony." Asked to make a speech at Johns Hopkins University, Baruch delivered a lecture on the evils of statism and the inviolability of natural laws. "We barter away our birthright," he said, "in such an extension of federal power that the earth, air and water are all, in some sense, regulated by bureaus. Local government is a vanishing function. Privacy in business relations is practically gone. Personal conduct is largely under federal supervision. There is scarcely one of the guarantees of the Bill of Rights that has not been impaired. The cost of all this folly is reflected in a four billion dollar government no better in many respects than the pre-war establishment which spent one-sixth as much . . . We simply cannot afford this sterile luxury."

It was a great speech, worthy of the honorary degree that it earned. But as the Roosevelt revolution went its way Baruch's reaction to measures that he could not approve was mild. To Senator Key Pittman he remarked that he did not want to be put into the "position of saying anything to commit sabotage."

Grant makes no effort to reconcile Baruch's opinions with his behavior. It is a thoroughly instructive book on the perils of being first of all a party man.

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